

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

JUNE 2019

MODULE 2



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

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The Guideline Answers contain the information based on the Laws/Rules applicable at the time of preparation. However, students are expected to be well versed with the amendments in the Laws/Rules made upto **six** months prior to the date of examination.

C O N T E N T S

Page

MODULE 2

1. Company Accounts and Auditing Practices	...	1
2. Capital Markets and Securities Laws	...	29
3. Industrial, Labour and General Laws (OMR Based Exam.)	...	49

EXECUTIVE PROGRAMME EXAMINATION
JUNE 2019
COMPANY ACCOUNTS AND AUDITING PRACTICES

Time allowed : 3 hours

Maximum marks : 100

NOTE : 1. Answer **ALL** Questions.

2. All working notes should be shown distinctly.

PART A

Question 1

- (a) Describe the disclosure requirements as per AS-27 by a joint venture in relation to :
- (i) Contingent liabilities
- (ii) Capital commitments. (5 marks)
- (b) What are the fundamental characteristics of Corporate Financial Reporting ? (5 marks)
- (c) Classify the following activities as (i) Operating activities (ii) Investing activities (iii) Financing activities (iv) Cash & cash equivalents :
- (1) Royalty received
- (2) Brokerage paid on purchase of shares
- (3) Buy back of own shares for cash
- (4) Marketable securities having maturity period of 3 months
- (5) Short-term deposits having maturity period of 4 months (5 marks)
- (d) Mahaveer Ltd. secured an overdraft of ₹10,00,000 from the bank by issuing 12,000, 10% debentures of ₹100 each as collateral security. Pass the necessary journal entries to record the above transactions and prepare the extract of Balance Sheet of Mahaveer Ltd. (5 marks)
- (e) The Balance Sheet of Veena Ltd. as on 31st March, 2018 is as follows :

Particulars	₹
I. Equity and Liabilities	
(1) Shareholders' Funds :	
(a) Share capital	4,20,000
(b) Reserves and Surplus	92,000
(2) Current Liabilities :	
Trade Payables	18,000
Total	5,30,000

*II. Assets :**(1) Fixed Assets :*

<i>(a) Tangible Assets</i>	<i>3,75,000</i>
<i>(b) Non-current Investments</i>	<i>25,000</i>

(2) Current Assets :

<i>(a) Trade Receivables</i>	<i>55,000</i>
<i>(b) Cash and Cash equivalents (bank)</i>	<i>75,000</i>
<i>Total</i>	<i>5,30,000</i>

The share capital of the company consists of 22,000 equity shares of ₹10 each and 2,000 preference shares of ₹100 each. Reserves and Surplus represent surplus in Statement of profit and loss. In order to facilitate the redemption of preference shares at a premium of 10%, the company decided :

- (i) To sell all the investments for ₹30,000*
- (ii) To finance part of redemption from company funds, subject to leaving a bank balance of ₹50,000.*
- (iii) To issue minimum number of equity shares of ₹10 each at ₹15 per share to raise the balance of funds required.*

You are required to pass necessary journal entries including bank entries to record above transactions. Narrations not necessary. (5 marks)

Answer 1(a)

Disclosure Requirements by a Joint Ventures AS-27 : A joint venturer should disclose the following information in its separate financial statements as well as in consolidated financial statements:

- (i) Contingent Liabilities:*
 - (a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities which have been incurred jointly with other venturers;*
 - (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and*
 - (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.*
- (ii) Capital Commitments*
 - (a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and*
 - (b) its share of the capital commitments of the joint ventures themselves.*

Answer 1(b)**Characteristics of Corporate Financial Reporting**

Relevance : Information is relevant when it influences the economic decisions of users by helping them to evaluate past, present, and future events to confirm/correct their past evaluations. The relevance of information is affected by its nature and materiality (which is always the threshold for relevance). Information overload, on the other hand, can obfuscate information, making it hard to sift through the relevant nuggets and making interpretation difficult.

Reliability : Information should be free from material errors and bias. The key aspects of reliability are faithful representation, priority of substance over form, neutrality, prudence, and completeness.

Comparability : Information should be presented in a consistent manner over time and a consistency is maintained between entities to enable users to make significant comparisons.

Understandability : Information should be readily understandable by users who are expected to have a reasonable knowledge of business, economics and accounting and a willingness to study the information with reasonable diligence.

The process of producing useful information includes a number of decision points, which may constrain the amount of information provided. These include:

- i. *Timeliness* : A delay in reporting may improve reliability at the cost of relevance.
- ii. *Benefit v. Cost* : Benefits derived from information should normally exceed the cost of providing it.
- iii. *Balancing of Qualitative Characteristics* : To meet the objectives of financial statements and make them adequate for a particular environment, providers of information must achieve an appropriate balance among qualitative characteristics. The aim is to achieve a balance among characteristics in order to meet the objective of financial statements.

Answer 1(c)

- (1) *Royalty Received* : Operating Activities
- (2) *Brokerage paid on purchase of shares* : Investing Activities
- (3) *Buy back of own shares for cash* : Financing Activities
- (4) *Marketable Securities having maturity period of 3 months* : Cash and Cash Equivalent
- (5) *Short-term deposits having maturity period of 4 months* : Investing Activities

Answer 1(d)**Journal Entries in the Books of Mahaveer Ltd.**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount Rs. (Dr.)</i>	<i>Amount Rs. (Cr.)</i>
---	Bank A/c	Dr.	10,00,000	10,00,000
	To Bank Overdraft A/c			
	(Being overdraft credited by bank in account)			
---	Debentures Suspense A/c	Dr.	12,00,000	
	To Debentures A/c			12,00,000
	(Being Issue of 12,000 10% debentures of Rs. 100 each as collateral security for a bank overdraft of Rs. 10,00,000)			

Extract of Balance Sheet of Mahaveer Ltd.

<i>Particulars</i>	<i>Note No.</i>	<i>Amount (Rs.)</i>
I. Equity and Liabilities		
Non-Current Liabilities		
Long Term Borrowings	1	12,00,000
Current Liability		
Short Term Loan	2	10,00,000
II. Assets		
Non-Current Assets		
Other Non-Current Assets	3	12,00,000
Current Assets (Bank Balance)	4	10,00,000

Notes to Accounts:

1. *Long Term Borrowings* : 12,000 10% Debentures of Rs. 100 each issues as collateral security as per contra Rs. 12,00,000.
2. *Short Term Loan* : Bank Overdraft secured by issue of 12,000 10% debentures of Rs. 100 each as collateral security Rs. 10,00,000.
3. *Other Non-Current Assets*: Debentures Suspense Account (issued as collateral security as per contra). Rs. 12,00,000.
4. *Current Assets*: Bank Balance being bank overdraft credited by bank in account of Mahaveer Ltd.

Answer 1(e)**Journal Entries in the Books of Veena Ltd.**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount Rs.(Dr.)</i>	<i>Amount Rs.(Cr.)</i>
---	Bank A/c To Equity Share Application A/c (Being application money received)	Dr.	1,65,000	1,65,000
---	Equity Share Application A/c To Equity Share Capital A/c To Securities Premium A/c (Being application money due transferred to equity share capital a/c)	Dr.	1,65,000	1,10,000 55,000
---	Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Share Holder A/c (Being redemption of preference shares due)	Dr. Dr.	2,00,000 20,000	2,20,000
---	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being writing off premium on redemption of preference shares)	Dr.	20,000	20,000
---	Bank A/c To Investment A/c To Profit & Loss A/c (Being investment sold)	Dr.	30,000	25,000 5,000
---	Profit & Loss A/c To Capital Redemption Reserve A/c (Being transfer of amount to CRR)	Dr.	90,000	90,000
---	Preference shareholders A/c To Bank A/c (Being amount paid to preference shareholders)	Dr.	2,20,000	2,20,000

Working Note:

1. Calculation of No. of Equity Shares to be issued:

Amount payable on Redemption	:	Rs. 2,20,000
Less : Sale Price on Investments	:	(Rs. 30,000)
		Rs. 1,90,000
Less : Available Bank Balance		(Rs. 25,000)
		(Rs. 75,000-Rs. 50,000)

Fund to be raised from fresh issue of shares = Rs. 1,65,000

No. of Shares = $1,65,000/15 = 11,000$ shares

2. Amount to be transferred to Capital Redemption Reserve A/c

Nominal Value of Preference Shares		Rs. 2,00,000
Less : Proceeds from fresh issue of shares		(Rs.1,10,000)
Amount to be transferred to CRR		Rs. 90,000

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question 2

(a) From the following information relating to a listed company, calculate value of a share :

(i) Equity Share Capital (equity shares of ₹10 each)	₹10,00,000
(ii) 10% Preference Share Capital	₹5,00,000
(iii) Profit earned before tax	₹4,10,000
(iv) Tax Rate	30%
(v) Price earnings ratio	25

(3 marks)

(b) *What do you mean by 'Firm Underwriting' ? How is it treated while computing the net liability of the underwriters ?* (3 marks)

(c) *List any three items each to be included and not to be included in preliminary expenses.* (3 marks)

(d) *Write a short note on shareholder's value added.* (3 marks)

- (e) The following is the draft Profit & Loss A/c of Anjali Ltd. for the year ended 31st March, 2018 :

Particulars	(₹)	Particulars	(₹)
To Administrative and marketing expenditure	7,60,600	By Balance b/d	5,70,500
To Directors fees	1,11,000	By Gross profit for the year	35,55,700
To Interest on debentures	52,500	By Revenue grants received from Govt.	3,10,000
To Depreciation on fixed assets	4,75,650		
To Managerial Remuneration	2,22,350		
To Provision for taxation	9,90,900		
To General Reserve	3,00,000		
To Proposed Dividend	7,50,000		
To Balance c/d	7,73,200		
Total	44,36,200	Total	44,36,200

Depreciation on Fixed assets as per Schedule II of the Companies Act, 2013 was ₹5,10,600.

You are required to calculate the maximum managerial remuneration payable as per the Companies Act, 2013. (3 marks)

OR (Alternative question to Q. No. 2)

Question 2A

- (i) The position of Badluck Ltd. on its liquidation is as under :

7,500, 9% Preference shares of ₹100 each fully paid up

1,00,000, Equity shares of ₹10 each fully paid up

50,000 Equity shares of ₹ 5 each, ₹ 3 paid up

Calls received in advance ₹ 20,000. Preference dividends are in arrears for two years.

Amount left with the liquidator after discharging all liabilities is ₹ 11,80,000. Articles of Association of the company provides for payment of preference dividend arrears in priority to return of equity capital.

You are required to prepare the Liquidator's Final Statement of Account and ascertain amount payable per share to equity shareholders.

- (ii) Give the disclosures that required to be made in the explanatory statement annexed to the notice for special resolution to be passed by shareholders of a company for approving scheme of Employee Stock Option.

(iii) From the following particulars, calculate the fair value of an equity share :

(1) Share capital :

50,000, 10% Preference shares of ₹100 each fully paid up

5,00,000 Equity shares of ₹10 each fully paid up

(2) External liabilities ₹7,50,000

(3) Reserves and Surplus ₹5,00,000

(4) The average normal profit after tax (PAT) earned per year in the last three years ₹8,80,000

(5) The normal profit earned by the identical type of companies is 11% of the value of their shares. (5 marks each)

Answer 2(a)

Calculation of Value of Shares

$$\begin{aligned} \text{Value of Shares} &= \text{Price Earnings Ratio} * \text{Earning Per Shares} \\ &= 25 * 2.37 \\ &= \text{Rs. 59.25 per shares} \end{aligned}$$

Working Notes:

$$\begin{aligned} \text{Earning Per Share} &= \text{Profit Available for Equity Shareholders} / \text{No of Equity Shares} \\ &= \text{Rs. 2,37,000} / 1,00,000 \\ &= \text{Rs. 2.37} \end{aligned}$$

Calculation of Profit available for Equity Shareholders

$$\begin{aligned} \text{Profit before Tax} &: \text{Rs. 4,10,000} \\ \text{Less : Tax @ 30\%} &= (\text{Rs. 1,23,000}) \\ &\text{Rs. 2,87,000} \\ \text{Less : Preference Dividend} &(\text{Rs. 50,000}) \\ \text{Profit Available to Equity Shareholders} &: \text{Rs. 2,37,000} \end{aligned}$$

Answer 2(b)

Firm underwriting refers to an agreement where the underwriters take up the agreed number of shares or debentures 'firm underwritten' in addition to unsubscribed shares or debentures, if any. In such an instance, an underwriter is not allowed to set off his firm underwriting against his liability otherwise determined, that he will have to subscribe both for shares/debentures 'underwritten firm' and for shares which he has to take under the underwriting contract, ignoring firm underwriting.

While computing the individual liability of the underwriters, the 'firm underwriting' can be dealt with in any of the following manner in the absence of any specific instructions:

- (a) The 'firm underwriting' may be adjusted against the individual liability of each underwriter separately or may be treated at par with marked applications.

- (b) The benefit of 'firm underwriting' may be shared by all underwriters or firm underwriting may be treated at par with unmarked applications. In such case, the shares/debentures underwritten firm will be included in the unmarked forms.

Answer 2(c)

Following expenses to be included in Preliminary Expenses:

- i. Stamp duty and fees payable on registration of the company and stamp papers purchased for preliminary contracts of the company.
- ii. The legal charges for preparing the Prospectus, Memorandum and Articles of Association and contracts and of the registration of the company.
- iii. Accountants' and Valuers' fees for reports, certificates, etc.
- iv. Cost of printing the Memorandum and Articles of Association, printing, advertising an issuing the prospectus.
- v. Cost of preparing, printing and stamping letters of allotment and share certificates.
- vi. Cost of preparing printing and stamping Debenture Trust Deed, if any.
- vii. Cost of company's seal and books of account, statutory books and statistical books.

Expenses not to be included in Preliminary Expenses:

- i. Cost of preparation of the feasibility report.
- ii. Cost of preparation of the project report.
- iii. Cost of conducting market survey or any other survey necessary for the business of the company.
- iv. Consultancy fees payable for engineering services in connection with the business.

Answer 2(d)

Shareholder Value Added (SVA) represents the economic profits generated by a business above and beyond the minimum return required by all providers of capital. "Value" is added when the overall net economic cash flow of the business exceeds the economic cost of all the capital employed to produce the operating profit. Therefore, SVA integrates financial statements of the business (profit and loss, balance sheet and cash flow) into one meaningful measure.

The SVA approach is a methodology which recognises that equity holders as well as debt financiers need to be compensated for the bearing of investment risk. The SVA methodology is a highly flexible approach to assist management in the decision making process. Its applications include performance monitoring, capital budgeting, output pricing and market valuation of the entity.

Answer 2(e)**Calculation of Net Profit under section 198 of the Companies Act, 2013**

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
Gross Profit		35,55,700
Add: Revenue Grants from Government		3,10,000
		38,65,700
<i>Less :</i>		
Administrative and Marketing Expenses	(7,60,600)	
Director Fees	(1,11,000)	
Interest on Debentures	(52,500)	
Depreciation on Fixed Assets as per Schedule II	(5,10,600)	(14,34,700)
Profit u/s 198		24,31,000

Maximum Managerial Remuneration under Companies Act, 2013 = 11% of Rs. 24,31,000
= Rs. 2,67,410.

Answer 2A(i)**Liquidator's Final Statement of Account of Badluck Ltd.**

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
Cash	11,80,000	Calls in advance	20,000
Amount received from equity shareholders of Rs. 5 each (50,000*2) Contributors	1,00,000	Preference Dividend	1,35,000
		Preference Shareholders	7,50,000
		Equity Shareholders of Rs. 10 each (Rs. 3 per share i.e. 100000 shares * Rs. 3 per share)	3,00,000
		Equity Shareholders of Rs. 5 each (Rs. 1.5 per share i.e. 50000 shares * Rs. 1.5 per share)	75,000
Total	12,80,000	Total	12,80,000

Working Note:

<i>Particulars</i>	<i>Amount (Rs.)</i>
Cash Available	12,80,000
Less : Calls in Advance	(20,000)
Payment of Preference Dividend	(1,35,000)
Preference Shareholders	(7,50,000)
Disposable Amount	3,75,000

No. of equivalent equity shares

1,00,000 shares of Rs. 10 each = 2,00,000 shares of Rs. 5 each

50,000 shares of Rs. 5 each = 50,000 shares of Rs. 5 each

Total Shares = 2,50,000 shares of Rs. 5 each

Final payment to equity share holder per share = $375000/250000$

= Rs. 1.5 per shares to equity shareholders of Rs. 5 each

Therefore, payment to equity shareholder of Rs. 10 each = Rs. 3 per share

Answer 2A(ii)**Disclosures in Explanatory Statement annexed to notice for passing of the resolution for approving scheme of Employee Stock Option**

Following are the disclosures in the explanatory statement annexed to the notice for passing of the resolution:

1. The total number of stock options to be granted;
2. Identification of classes of employees entitled to participate in the ESOP;
3. The appraisal process for determining the eligibility of employees to the ESOP;
4. The requirements of vesting and period of vesting;
5. The maximum period within which the options shall be vested;
6. The exercise price or the formula for arriving at the same;
7. The exercise period and process of exercise;
8. The Lock-in period, if any ;
9. The maximum number of options to be granted per employee and in aggregate.
10. The method which the company shall use to value its options;
11. The conditions under which option vested in employees may lapse e.g. in case of termination of employment for misconduct;
12. The specified time period within which the employee shall exercise the vested options in the event of a proposed termination of employment or resignation of employee; and m) a statement to the effect that the company shall comply with the applicable accounting standards.

Answer 2A(iii)**Intrinsic value of an equity share**

<i>Particulars</i>	<i>Amount (Rs.)</i>
Preference Share Capital	50,00,000
Equity Share Capital	50,00,000
Reserve and Surplus	5,00,000
External Liabilities	7,50,000
Gross Assets	1,12,50,000
<i>Less : External Liabilities</i>	7,50,000
Assets available to shareholders	1,05,00,000
<i>Less : Amount belong to Preference Shareholders</i>	(50,00,000)
Net Assets available to Equity Shareholders	55,00,000

Intrinsic Value of an equity share = Rs. 55,00,000/5,00,000 shares = Rs. 11 per share

Valuation of an equity share on yield method basis:

Average Profit earned after tax= Rs. 8,80,000

Rate of Dividend = (Rs. 8,80,000 * 100) / Rs. 50,00,000 = 17.60%

Yield value of each share: = (Rate of Dividend / Normal Rate of Return) * Paid up value of each share

= (17.60 / 11) * 10 = Rs. 16 per share

Fair Value of each share = (Intrinsic Value + Yield Value) / 2

= (11+16) / 2

= Rs. 13.50 per share

Alternate Answer 2A(iii)**Intrinsic value of an equity share**

<i>Particulars</i>	<i>Amount (Rs.)</i>
Preference Share Capital	50,00,000
Equity Share Capital	50,00,000
Reserve and Surplus	5,00,000
External Liabilities	7,50,000
Gross Assets	1,12,50,000
<i>Less : External Liabilities</i>	7,50,000
Assets available to shareholders	1,05,00,000
<i>Less: Amount belong to Preference Shareholders</i>	(50,00,000)
Net Assets available to Equity Shareholders	55,00,000

Intrinsic Value of an equity share = Rs. 55,00,000/5,00,000 shares = Rs. 11 per share

Valuation of an equity share on yield method basis

Average Profit earned after tax= Rs. 8,80,000

Less : Preference Dividend = (Rs. 5,00,000)

(50,00,000 * 10%)

Average Profit earned after tax (available to equity shareholder) = Rs. 3,80,000

Rate of Dividend = (Rs. 3,80,000 * 100) / Rs. 50,00,000 = 7.60%

Yield value of each share: = (Rate of Dividend / Normal Rate of Return) * Paid up value of each share

= (7.60 / 11) * 10 = Rs. 6.91 per share

Fair Value of each share = (Intrinsic Value + Yield Value) / 2

= (11+6.91) / 2

= Rs. 8.955 per share

Note: It has been assumed that preference dividend is not deducted while calculating Average Profit and therefore, it has been subtracted while calculating the valuation of an equity share on yield method basis.

Question 3

- (a) *Due to inadequacy of profits during the year ended 31st March, 2018, Meenu Ltd. proposes to declare 12.50% dividend out of free reserves. From the following particulars, find out, can the company declare & pay dividend @ 12.50% on equity shares according to the Companies (Declaration and Payment of Dividend) Rules, 2014 :*

	₹
10,000, 10% Preferences Shares fully paid up	10,00,000
10,00,000 Equity Shares of ₹10 each fully paid up	1,00,00,000
General Reserves as on 31st March, 2017	28,00,000
Capital Reserves as on 31st March, 2017	5,00,000
Net Profit for the year ended 31st March, 2018	2,50,000
Average rate of dividend declared for the last three years	15%

(5 marks)

- (b) *Fortune Ltd. had 4000, 12% Debentures of ₹100 each as on 1st April, 2018. As per terms of the issue, the company purchased the following debenture in the open market for immediate cancellation :*

1st May, 2018	800	Debentures at cum-interest	₹98 each
1st January, 2019	1600	Debentures at cum-interest	₹100.25 each
1st March, 2019	400	Debentures at ex-interest	₹98.50 each

The company closes its books on 31st March each year. Assuming that

debenture interest was payable half-yearly on 30th September and 31st March, show the following accounts in the books of company :

- (i) 12% Debentures A/c
(ii) Debenture Interest A/c
(iii) Profit on Redemption of Debenture A/c. (5 marks)

(c) Following is the extract of the Balance Sheet of Prasann Ltd. (an unlisted company) as on 31st March, 2018 :

PARTICULARS	₹
Authorised Capital :	
12,000 10% Preference shares of ₹100 each	12,00,000
2,00,000 Equity shares of ₹10 each	20,00,000
	32,00,000
Issued, subscribed and paid up Capital :	
12,000 10% Preference shares of ₹100 each fully paid up	12,00,000
1,20,000 Equity shares of ₹10 each ₹8 paid up	9,60,000
Reserves and Surplus :	
Securities Premium (Collected otherwise than in Cash)	50,000
Capital Redemption Reserve	75,000
General Reserve	2,25,000
Profit & Loss (Surplus)	3,50,000

On 1st April, 2018, the company made final call @ ₹2 per share on 1,20,000 equity shares. The call money was received by 20th April, 2018. Thereafter, the company decided to capitalize its reserves by way of bonus issue at the rate of one share for every three shares held. It was decided that there should be the minimum reduction in the balance of profit and loss (Surplus).

Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2018 after bonus issue.

(5 marks)

Answer 3(a)

Amount need to be drawn from reserves for 12.50% dividend

(A) 12.50% dividend on Rs. 1,00,00,000 = Rs. 12,50,000

(B) Profit Available

Current Year Profit Rs. 2,50,000

Less : Preference Dividend (Rs. 1,00,000)

Rs. 1,50,000

Amount need to be drawn from reserves Rs. 11,00,000 (Rs. 12,50,000 – Rs. 1,50,000)

Conditions as per Companies (Declaration and Payment of Dividend) Rules, 2014

Condition I : Since 12.50% is lower than the average rate of Dividend 15%, 12.50% dividend can be declared.

Condition II : Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves i.e. Rs. 13,80,000 (10% of 10,00,000 + Rs. 1,00,00,000 + Rs. 28,00,000).

Condition III : The balance of reserves Rs 17,00,000 after withdrawal of Rs. 11,00,000 (Rs. 28,00,000 – Rs. 11,00,000) should not fall below 15% its paid up capital i.e. Rs. 16,50,000 (15% of Rs. 1,10,00,000).

Since, all the three condition are satisfied, the company can withdraw Rs. 11,00,000 from accumulated profits and declare and pay dividend @ 12.50% on equity shares.

Answer 3(b)

12% Debentures A/c

Date	Particular	J.F.	Amount Rs.	Date	Particular	J.F.	Amount Rs.
1.5.2018	To Bank (excluding interest)		77,600	1.4.2018	By balance b/d		4,00,000
1.5.2018	To Profit on redemption of debentures		2,400				
1.1.2019	To Bank (excluding interest)		1,55,600				
1.1.2019	To Profit on redemption of debentures		4400				
1.3.2019	To Bank		39,400				
1.3.2019	To Profit on redemption of debentures		600				
31.3.2019	To Balance c/d		1,20,000				
	Total		4,00,000		Total		4,00,000

Debenture Interest A/c

Date	Particular	J.F.	Rs.	Date	Particular	J.F.	Rs.
1.5.2018	To Bank		800	31.3.2019	By Profit & Loss A/c		34000
30.9.2018	To Debenture Holder A/c Bank		19200				
1.1.2019	To Bank		4800				
1.3.2019	To Debenture Holder A/c/ Bank		2000				
31.3.2019	To Debenture Holder A/c/ Bank		7200				
	Total		34000		Total		34000

Profit on Redemption of Debentures A/c

<i>Date</i>	<i>Particular</i>	<i>J.F.</i>	<i>Rs.</i>	<i>Date</i>	<i>Particular</i>	<i>J.F.</i>	<i>Rs.</i>
31.3.2019	To Capital Reserve A/c		7400	1.5.2018	By 12% Debenture A/c		2400
				1.1.2019	By 12% Debenture A/c		4400
				1.3.2019	By 12% Debenture A/c		600
	Total		7400	Total			7400

Answer 3(c)**Journal Entries in the Books of Prasam Ltd.**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount Rs. (Dr.)</i>	<i>Amount Rs. (Cr.)</i>
01.04.2018	Equity Share final call A/c	Dr.	2,40,000	
	To Equity Share Capital A/c			2,40,000
	(Being final call of Rs. 2 per share on 120000 shares due as per bond's resolution)			
20.04.2018	Bank A/c	Dr.	2,40,000	
	To Equity Share final call A/c			2,40,000
	(Equity Share final call money received)			
20.04.2018	Securities Premium A/c	Dr.	50,000	
	Capital Redemption Reserve A/c	Dr.	75,000	
	General Reserve A/c	Dr.	2,25,000	
	Profit and Loss A/c	Dr.	50,000	
	To Bonus to Share Holder A/c			4,00,000
	(Being Provided for bonus issue of one equity shares for every three shares held)			
20.04.2018	Bonus to Shareholders A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being Bonus Shares Issued)			

**Extract of Balance Sheet of Prasann Ltd. as at 30th April, 2018
(After Bonus Issue)**

<i>Particulars</i>	<i>Amount (Rs.)</i>
Authorised Capital	
12,000 10% Preference Shares @ Rs. 100 each	12,00,000
2,00,000 Equity Shares of Rs. 10 each	20,00,000
	32,00,000
Issued, Subscribed and Paid up Capital	
12000 10% Preference Shares @ Rs. 100 each fully paid up	12,00,000
160000 Equity Shares of Rs. 10 each fully paid up	16,00,000
(out of above, 40000 equity shares of Rs. 10 each fully paid up were issued by way of bonus issue)	28,00,000
Reserve and Surplus	
Profit and Loss (Surplus)	3,00,000

Question 4

- (a) A Ltd. takes over the business of B Ltd. for ₹15,00,000 on 1st April, 2018 on which date the Balance Sheet of B Ltd. stands as follows :

<i>PARTICULARS</i>	<i>₹</i>
I. EQUITY & LIABILITIES	
(1) <i>Shareholders' Fund :</i>	
(a) <i>Share Capital (Equity shares of ₹10 each)</i>	18,00,000
(b) <i>Reserves & Surplus (debit balance in Profit & Loss Statement)</i>	(1,50,000)
(2) <i>Current Liabilities</i>	3,50,000
<i>Total</i>	20,00,000
II. ASSETS	
(1) <i>Non-Current Assets : Fixed Assets-Tangible</i>	12,50,000
(2) <i>Current Assets :</i>	
(a) <i>Stock</i>	4,80,000
(b) <i>Bills receivables</i>	2,10,000
(c) <i>Cash and Cash equivalents</i>	60,000
<i>Total</i>	20,00,000

The acquirer company values tangible assets at ₹11,00,000. The consideration is to be discharged by a cash payment of ₹2,00,000 and allotment of sufficient number of fully paid equity shares in A Ltd. of the face value of ₹10 each at ₹13 each.

Expenses of winding up ₹20,000 are to be borne by A Ltd.

You are required to prepare necessary ledger accounts and pass necessary journal entries in the books of B Ltd. (8 marks)

(b) The following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. at 31st March, 2018 :

PARTICULARS	Note No.	H Ltd. (₹)	S Ltd. (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital (equity shares of ₹10 each)		5,00,000	2,00,000
(b) Reserves and Surplus		1,00,000	50,000
(2) Current Liabilities :			
Trade Payables		80,000	60,000
	Total	6,80,000	3,10,000
II. ASSETS			
(1) Non-Current Assets :			
(a) Fixed Assets—Tangible		3,00,000	1,00,000
(b) Non-current investment (12000 equity shares in S Ltd. acquired on 31st March, 2018 at cost)		1,80,000	
(2) Current Assets			
		2,00,000	2,10,000
	Total	6,80,000	3,10,000

On 31st March, 2018 S Ltd. revalued its fixed assets at ₹1,50,000 and current assets of ₹1,60,000. Trade payables of H Ltd. includes ₹20,000 due to S Ltd.

Prepare the consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2018 with Notes to Accounts and working notes. (7 marks)

Answer 4(a)

Realisation A/c

		Dr.		Cr.			
Date	Particular	J.F.	Rs.	Date	Particular	J.F.	Rs.
1.4.2018	To Tangible Assets		12,50,000	1.4.2018	By Current Liabilities		3,50,000
1.4.2018	To cash & cash equivalents		60,000	1.4.2018	By A Ltd. (Consideration)		15,00,000
1.4.2018	To Stock		4,80,000	1.4.2018	By Equity Share- holders A/c (Loss)		1,50,000
1.4.2018	To Bills Receivables		2,10,000				
	Total		20,00,000		Total		20,00,000

A Ltd. Account

1.4.2018	To Realization A/c	15,00,000	1.4.2018	By Bank	2,00,000
			1.4.2018	By Shares in A Ltd.	13,00,000
	Total	15,00,000	Total		15,00,000

Shares in A Ltd. A/c

1.4.2018	To A Ltd	13,00,000	1.4.2018	By Equity Shareholders A/c	13,00,000
	Total	13,00,000	Total		13,00,000

Bank Account

1.4.2018	To Balance b/f	60,000	1.4.2018	By Realisation A/c	60,000
1.4.2018	To A Ltd	2,00,000	1.4.2018	By Equity Shareholders A/c	2,00,000
	Total	2,60,000	Total		2,60,000

Equity Shareholders A/c

1.4.2018	To Profit and Loss A/c	1,50,000	1.4.2018	By Equity Share Capital A/c	18,00,000
1.4.2018	To Realisation A/c	1,50,000			
1.4.2018	To Bank	2,00,000			
1.4.2018	To Shares in A Ltd.	13,00,000			
	Total	18,00,000	Total		18,00,000

Journal Entries in the Books of B Ltd.

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount (Rs.)</i>	<i>Amount (Rs.)</i>
1.4.2018	Realisation A/c	Dr.	20,00,000	
	To Tangible fixed assets A/c			12,50,000
	To Cash/ Bank balance A/c			60,000
	To Stock A/c			4,80,000
	To bills receivables A/c			2,10,000
	(Being transfer of all the assets in Realisation A/c)			
1.4.2018	Current Liabilities A/c	Dr.	3,50,000	
	To Realisation A/c			3,50,000
	(Being current liabilities transferred to Realisation A/c)			

EP-CAAP-June 2019		20		
1.4.2018	A Ltd. A/c	Dr.	15,00,000	
	To Realisation A/c			15,00,000
	(Being Consideration receivable from A Ltd.)			
1.4.2018	Bank A/c	Dr.	2,00,000	
	Shares in A Ltd.	Dr.	13,00,000	
	To A Ltd.			15,00,000
	(Being Cash and value of shares received from A Ltd. in discharge of the consideration)			
1.4.2018	Equity Share Capital A/c	Dr.	18,00,000	
	To Equity Shareholders A/c			18,00,000
	(Being transfer of equity share capital to shareholders A/c)			
1.4.2018	Equity Shareholders A/c	Dr.	3,00,000	
	To Profit and Loss A/c			1,50,000
	To Realisation A/c (loss)			1,50,000
	(Being transfer of debit balance of P&L A/c and realization loss of equity shareholders A/c)			
1.4.2018	Equity Shareholders A/c	Dr.	15,00,000	
	To Bank A/c			2,00,000
	To Shares in A Ltd. A/c			13,00,000
	(Being distribution of cash and shares in A Ltd. among equity shareholders to satisfy their claim)			

Answer 4(b)

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2018

<i>Particular</i>	<i>Note No.</i>	<i>Amount (Rs.)</i>
I Equity and Liabilities		
(1) Shareholder's Fund		
(a) Equity Share Capital	1	5,00,000
(b) Reserve and Surplus	2	1,00,000
(2) Non-Current Liabilities		
Minority Interest	3	1,00,000
(3) Current Liabilities		
Trade Payables	4	1,20,000
Total		8,20,000

II	Assets		
	(1) Non-Current Assets		
	(a) Fixed Assets – Tangible	5	4,50,000
	(b) Intangible Assets	6	30,000
	(2) Current Assets	7	3,40,000
<hr/>			
	Total		8,20,000
<hr/>			

Notes to Accounts

<i>Note No.</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
1.	Equity Share Capital	
	Issued, Subscribed and paid up	
	50,000 Equity Shares of Rs. 10 each fully paid	5,00,000
2.	Reserve and Surplus - Reserve	1,00,000
3.	Minority Interest	
	40% of reserve of S Ltd. (50000*40%)	20,000
	40% of appreciation in the value of fixed assets (50,000 * 40%)	20,000
	40% of depreciation in the value of current assets (50,000 * 40%)	(20,000)
	40% of paid up value of shares of S Ltd. (2,00,000 * 40%)	80,000
		1,00,000
4.	Trade Payable	
	H Ltd.	80,000
	S Ltd.	60,000
		1,40,000
	Less : Due to S Ltd.	(20,000)
		1,20,000
5.	Tangible Fixed Assets	
	H Ltd.	3,00,000
	S Ltd.	1,50,000
6.	Intangible Assets	
	Calculation of Goodwill	
	Amount paid for 60% shares in S Ltd.	1,80,000
	Less : Paid up value of 60% shares in S Ltd.	(1,20,000)
	Less: 60% of reserves of S Ltd. on the date of acquisition of shares (60% of 50,000)	(30,000)

	<i>Less</i> : 60% of appreciation in value of Fixed Assets (50,000 * 60%)	(30,000)
	<i>Add</i> : 60% of depreciation in value of current assets (50,000*60%)	30,000
	Goodwill	30,000
7.	Current Assets	
	H Ltd.	2,00,000
	S Ltd.	1,60,000
		3,60,000
	<i>Less</i> : Receivable from H Ltd.	(20,000)
		3,40,000

PART B

Question 5

- (a) *What do you mean by CAG Audit ? Which organizations are subject to CAG Audit in India ?*
- (b) *Explain the following terms in relation to auditing :*
- (i) *Adverse opinion*
 - (ii) *Audit committee*
 - (iii) *Audit Risk*
 - (iv) *Independence*
 - (v) *Misstatement.*
- (c) *UT & Co. an independent audit firm, intends to modify its opinion in the auditor's report. Explain when it is necessary to modify the opinion in light of SA 705 ?*
(5 marks each)

Answer 5(a)

CAG Audit is known as audit of public enterprises is done by Comptroller and Auditor General of India. In India, government audit is performed by an independent constitutional authority, i.e. Comptroller and Auditor General of India (C&AG), through the Indian Audit and Accounts Department.

The organisations subject to the audit of the Comptroller and Auditor General of India are:

- i. All the Union and State Government departments and offices including the Indian Railways and Posts and Telecommunications.
- ii. Public commercial enterprises controlled by the Union and State governments, i.e. government companies and corporations.
- iii. Non-commercial autonomous bodies and authorities owned or controlled by the Union or the States.

- iv. Authorities and bodies substantially financed from Union or State revenues.

Answer 5(b)

- i. *Adverse Opinion* : Adverse opinions means a professional opinion made by an auditor indicating that a company's financial statements are misrepresented, misstated and do not show a true and fair view of the company's affairs.
- ii. *Audit Committee* : A committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor and receipt of audit results.
- iii. *Audit Risk* : A combination of the risks that material errors will occur in the accounting process and the risk of errors not getting discovered through audit tests. Audit risk includes uncertainties due to sampling (sampling risk) and to other factors (non-sampling risk).
- iv. *Independence* : This means freedom from bias, which is possible even when auditing one's own business (independence in fact).
- v. *Misstatement* : Misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

Answer 5(c)

Modifications to the Opinion in the Independent Auditor's Report SA 705: This Standard on Auditing (SA) 705 deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that are necessary when:

- i. The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- ii. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Attempt all parts of either Q. No. 6 or Q. No. 6A

Question 6

- (a) *Internal audit is concerned with an evaluation of both internal control as well as the quality of actual performance. In view of the above statement, explain the scope of internal audit.*
- (b) *"The review of personnel policies is related with the review of the functions of Human Resource Department". Explain.*
- (c) *Explain any five predetermined control objectives to be evaluated by internal auditor while accessing organization's internal control. (5 marks each)*

OR (Alternative question to Q. No. 6)**Question 6A**

- (i) *Enumerate any five points that should be considered at the time of audit planning and audit engagement.*
- (ii) *Explain the manner of rotation of auditors by the companies on expiry of their terms as prescribed under Companies Act, (Audit and Auditors) Rules, 2014.*
- (iii) *Write any five objectives of review control over purchasing operations.*
(5 marks each)

Answer 6(a)

Scope of Internal Audit : The Institute of Internal Auditors defines scope of internal auditing as 'The examination and evaluation of the adequacy and effectiveness of organization's system of internal control and the quality of actual performance'. Accordingly, internal audit involves five areas of operation (scope) which are as follows:

1. *Reliability and Integrity of Financial and Operating Information* : - Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
2. *Economical and Efficient Use of Resources* : - Internal Auditor should ensure the economic and efficient use of resources available.
3. *Compliance with Laws, Policies, Plans, Procedures, and Regulations* : - Internal Auditor should review the systems established to ensure compliance with those *policies, plans and procedures, law and regulations which could have a significant impact on operations and should determine whether the organization is in compliance thereof.*
4. *Accomplishment of Established Goals for Operations* : - Internal Auditor should review operations, programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
5. *Safeguarding of Assets* : - Internal Auditor should verify the existence of assets and should review means of safeguarding assets.

Answer 6(b)

In review of personal polices, several functions of human resources department are reviewed. This review is more than just looking at personnel files to make sure they're complete and consistent with applicable laws and legislation pertaining to employment practices. In personal policies review it is ascertained whether human resources function is supporting the company philosophy, mission and values.

1. *Review of Employee Relations*: The employee relations area of human resources is typically responsible for addressing employee concerns, designing and analyzing employee opinion surveys, assisting HR leadership with monitoring

the performance management system, and representing the company in matters involving claims pertaining to unemployment compensation and unfair employment practices. An review of these functions includes reviewing the level of employee satisfaction. Employee satisfaction can be measured by turnover rate; number of employee complaints filed and resolved, the status of action plans from recent employee opinion surveys, and the effectiveness of performance management system.

2. *Review of Safety and Risk Management* : The goal of HR department's safety and risk management program is to create and maintain a safe work environment. Auditing safety and risk management function goes beyond merely assessing adherence to company occupational health safety policy, however it includes assessing employee participation in maintaining a safe work environment, measuring the effectiveness of safety training to reduce the number of workplace injuries, and providing training related to workplace violence, actions of disgruntled employees and civil unrest.
3. *Review of Compensation and Benefits* : Reviewing compensation and benefits begins with an analysis of compensation practices- review the employee survey to get sure that organisation's pay practices are appropriate for each job group, as competitive as possible for geographic area and the industry, and, importantly, the pay practices must be fair. Reviewing compensation plans takes time to complete; based on the size of the workforce. This part of your person policy review may be more effectively outsourced than conducting the analyses in-house.
4. *Recruitment and Selection* : Organization's recruitment and selection process shapes part of company's reputation. Reviewing human resources employment function involves a review of the way applicants are received. An review should reveal how knowledgeable the engaged employment specialists are concerning organizational structure, positions within each department, and fair employment practices in recruiting and hiring candidates.
5. *HR Departmental Practices* : In addition to auditing specific areas of human resources department, review of HR function in its totality and in relationship to other departments is also required. An ineffective HR programs can undermine an organization's ability to achieve its mission by stunting its competitiveness in the labor market, increasing unjustified financial costs, and putting the organization at risk for lawsuits or regulatory inquiries due to non-compliance or misconduct.

Answer 6(c)

Objectives of Internal Control

- i. *Authorization* - the objective is to ensure that all transactions are approved by responsible personnel in accordance with their specific or general authority before the transaction is recorded.
- ii. *Completeness* - the objective is to ensure that no valid transactions have been omitted from the accounting records.

- iii. *Accuracy* - the objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data, and information is recorded in a timely manner.
- iv. *Validity* - the objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.
- v. *Physical Safeguards and Security* - the objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.
- vi. *Error Handling* - the objective is to ensure that errors detected at any stage of processing receive prompts corrective action and are reported to the appropriate level of management.
- vii. *Segregation of Duties* - the objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing a transaction.

Answer 6A(i)

Audit planning requires a high degree of discipline on the part of the auditor. In order to make the planning more meaningful, the auditor should take into consideration the following matters in relation to the audit engagement:

- (a) *Preliminary work to be done in addition to the real audit work* : This will include such matters as stocktaking, cash count, debtors' circularisation and review of previous year's working papers. This will remind the auditor of those matters brought forward from the previous year and any other points to be resolved in the current year or problems anticipated.
- (b) *Changes in legislation, accounting or any auditing standards or guidelines* : The auditor should acquaint himself with all the changes that took place during the year in applicable legislation, accounting and auditing standard. This will help an auditor in carrying out the auditing assignment in away that meets the legislative requirement.
- (c) *Analytical review of available management accounts and other management information that relate to the accounts* : This will assist in establishing valuable ratios and indicators that will guide the auditor. For instance, the computation of the gross profit percentage compared with that of the previous year will provide a good indicator to the auditor of the accuracy and reliability of sales and cost of sales.
- (d) *Changes in the business or management* : The appointment of a new finance controller and the establishment of a new business line or the creation of a new branch are significant changes in the circumstances of the company which will necessitate changes in the existing audit plans. There may be similiary changes for which change may be required in audit plan.
- (e) *Changes in the accounting system* : The introduction of computers such that

when a company introduces significant changes in its operating procedures will require a review and evaluation of the system of internal control.

- (f) *Deadlines established for the submission of audit report* : Where a client has set deadlines for its statutory activities such as the annual general meeting, it is important for the auditor to work in line with such programmes.
- (g) *Use of Rotational Testing and Verification* : In practice, the auditor may not carry out a hundred percent testing or verification of the client's transactions or segments of the business. Where rotational testing or verification is adopted, it will be necessary for the auditor to determine ahead of the date of the engagement which aspects of the business should be selected for testing or verification. An example of rotational testing could be applied on the client's branches to be visited.

Answer 6A(ii)

Manner of rotation of auditors by the companies on expiry of their term:

A company shall follow the procedure prescribed under the Rule 6 of the Companies (Audit and Auditors) Rules, 2014 for the rotation of auditors under section 139(2).

- The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.
- Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.
- For the purpose of the rotation of auditors-
 - (i) in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or ten consecutive years, as the case may be;
 - (ii) the incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms which includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.
- For the purpose of rotation of auditors,-
 - (i) a break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;
 - (ii) if a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

Answer 6A(iii)

The objectives of review of internal control system over Purchasing Operation include to ascertain:

1. Whether controls are in place in the process to ensure that accountability is established as early as possible at all points along with the accountability chain.
2. Whether segregation of duties, risk mitigating controls, exists within transaction processing authorization. Whether separation of duties exists between various types of transaction processing (e.g., procurement, accounts payable, disbursements).
3. Whether the quantity and quality of goods and services received is documented and agrees with the requisition and performance expectations such as service level agreements, contract terms, and vendor performance.
4. Whether transactions are properly verified before disbursement, transactions and activities are properly authorized, transactions and events are properly recorded.
5. Whether accountability for refunds and credits are maintained. Whether staff understands their duties, responsibilities, and accountabilities.
6. Whether procurement practices and procedures are documented, and in compliance with central and state laws and other requirements such as contract terms and conditions. Procurement records for authorizations and transactions are maintained in accordance with established requirements.
7. Whether accounting records are protected from theft, obsolescence, or destruction. Whether assets are safeguarded from loss through watchful and responsible care and reconciliation functions

CAPITAL MARKETS AND SECURITIES LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

Attempt the following questions :

- (a) Ramesh and Mahesh are the partners of the firm which carries various financial advisory services. (other than investment advisory services). The firm has net worth of ₹10 crore. The firm desires to engage in providing credit rating services. Advise the firm, whether it can apply to the SEBI for grant of certificate of registration under the SEBI (Credit Rating Agencies) Regulations, 1999 ?
(5 marks)
- (b) (i) What do you mean by 'Treasury Bills' ?
(2 marks)
- (ii) On 15th April 2019, ABC Bank buys 91-days treasury bill, maturing on 12th June 2019. The rate quoted by seller is ₹99.30 per ₹100 face value. Calculate the yield percentage of the treasury bill.
(4 marks)
- (c) Best mutual fund has launched a scheme name Grand Bonanza. The net asset value (NAV) of the scheme is ₹12 per unit. The redemption price is ₹11.65 per unit and offer price is ₹12.50 per unit. You are required to calculate :
- (i) Front end load charges.
- (ii) Back end load charges.
(4 marks)

Answer 1(a)

As per Regulation 4 of the SEBI (Credit Rating Agencies) Regulations, 1999, the SEBI shall consider application of any credit rating agency only if it is made by any of the following categories, namely:

- (i) A public financial institution;
- (ii) A scheduled commercial bank;
- (iii) A foreign bank operating in India with the approval of the Reserve Bank of India;
- (iv) A foreign credit rating agency incorporated in a Financial Action Task Force (FATF) member jurisdiction and recognised under their law, having a minimum of five years' experience in rating securities.;
- (v) Any company or a body corporate, having continuous net worth of minimum rupees one hundred crore as per its audited annual accounts for the previous five years in relation to the date on which application to SEBI is made seeking registration.

Here, Partnership firm is not covered under Regulation 4 and hence the firm cannot apply for certificate of registration under the SEBI (Credit Rating Agencies) Regulations 1999 irrespective of its net worth.

Answer 1(b)

- (i) Treasury bills are money market instruments issued by RBI to finance the short term requirements of the Government of India. These securities are issued at a discounted value and redeemed at the face value at maturity. The return to the investor is the difference between the maturity value and issue price.
- (ii) The days to maturity of T bill are :

$$16+31+11 = 58$$

$$YTM = \frac{100 - 99.30}{99.30} \times \frac{365}{58} \times 100 = 4.436$$

Answer 1(c)

- (i) Front end load

$$\text{Public offer price} = \text{NAV}/(1-\text{frontend load})$$

$$12.50 = 12/1-x$$

$$12.50 - 12.50x = 12$$

$$X = 0.50/12.50$$

$$= 0.4 \text{ per unit}$$

$$\text{Front end load} = 4\% = \text{Rs. } 0.48/\text{- per unit}$$

- (ii) Back end load

$$\text{Redemption Price} = \text{NAV}/(1+\text{back end load})$$

$$11.65 = 12/1+X$$

$$X = 0.35/11.65 = 0.03$$

$$\text{Back-end load} = 3\% = \text{Rs. } 0.36/\text{- per unit}$$

Attempt all parts of either Q. No. 2 or Q. No. 2A

Question 2

Explain the following :

- (a) *On-line surveillance*
 (b) *Mortgage Bonds*
 (c) *Categories of AIF*
 (d) *Forms of ECB*
 (e) *Foreign Portfolio Investor.*

(3 marks each)

OR (Alternate question to Q. No. 2)**Question 2A**

- (i) *Mohan an investor of Venture Capital Fund (VCF) incorporated and established outside India proposes to make investments in Venture Capital Fund in India. He has sought the guidance of company secretary for grant of certificate and the investment criteria to be followed by him. Suggest the guidance to him.*
- (ii) *Discuss the schemes and arrangements which are not coming under the ambit of collective investment scheme.*
- (iii) *What are the compliances relating to annual report to be complied by companies issuing Indian Depository Receipts ? Explain them. (5 marks each)*

Answer 2 (a)**On-line Surveillance**

One of the most important tools of the surveillance is the on-line Real Time Surveillance system which was commissioned in 1999 with main objectives of detecting potential market abuses at a nascent stage to reduce the ability of the market participants to unduly influence the price and volumes of the scrips traded at the Exchange, improve the risk management system and strengthen the self-regulatory mechanism at the exchange. System also provides facility to access trades and orders of members.

- The system has a facility to generate the alerts on-line, in real time, based on certain preset parameters like price and volume variations in scrips.
- An Alert occurs in the Surveillance system when a metric behaves significantly differently from its benchmark.

The alerts generated by the system are analyzed and corrective action based on preliminary investigations is taken in such cases.

Answer 2(b)**Mortgage Bonds**

Mortgage backed bonds are collateralized term-debt offering. Every issue of such bonds is backed by a pledged collateral. Property that can be pledged as security for mortgage bonds is called eligible collateral. The terms of these bonds are like the bonds floated in the capital market, semi-annual or quarterly payments of interest and final payment of principal. These bonds are typically backed by real estate holdings and real property such as equipment. In a default situation, mortgage bondholders have a claim to the underlying property and could sell it off to compensate for the default.

Answer 2(c)**Categories of Alternative Investment Fund**

As per the SEBI (Alternative Investment Funds) Regulations, 2012, SEBI has classified AIF into the following three broad categories:

Category 1 : Fund that invest in start-up or early stage ventures or social ventures or Small and Medium Enterprises (SMEs) or infrastructure or other sectors which

the government or regulators consider as socially or economically desirable which include VCF, SME Funds, Social Venture Funds (SVF), Infra Funds and such other AIFs as may be specified in the AIF Regulations.

Category II : Funds that do not fall in Category I and III AIF and those that do not undertake leverage or borrowing other than to meet the permitted day to day operational requirement including Private Equity Funds or Debt Funds.

Category III : Funds that employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives for e.g. Hedge Funds, SEBI has allowed the Category-III Alternative Investment Funds (AIFs) to participate in the commodity derivatives market also.

Answer 2(d)

Forms of ECB

External Commercial Borrowings (ECBs) are commercial loans raised by eligible resident entities from recognized non-resident entities and should conform to parameters such as minimum maturity, permitted and non-permitted end uses, maximum all-in-cost ceiling, etc. The parameters apply in totality and not on a standalone basis. The ECB Framework enables permitted resident entities to borrow from recognized non-resident entities in the following forms:

1. Loans including bank loans;
2. Securitized instruments (e.g. floating rate notes and fixed rate bonds, non-convertible, optionally convertible or partially convertible preference shares/debentures);
3. Buyers' credit;
4. Suppliers' credit;
5. Foreign Currency Convertible Bonds (FCCBs);
6. Financial Lease; and
7. Foreign Currency Exchangeable Bonds (FCEBs).

Answer 2(e)

Foreign Portfolio Investor

“Foreign Portfolio Investor” means a person who satisfies the eligibility criteria and has been registered under the SEBI (Foreign Portfolio Investors) Regulations, 2014, which shall be deemed to be an intermediary. However, any foreign institutional investor or qualified foreign investor who holds a valid certificate of registration shall be deemed to be a foreign portfolio investor till the expiry of the block of three years for which fees have been paid as per the SEBI (Foreign Institutional Investors) Regulations, 1995.

Answer 2A(i)

The certificate to be granted to the foreign venture capital is subject to the conditions that:

- (a) it should abide by the provisions of the SEBI Act, 1992 and SEBI (Foreign Venture Capital Investors) Regulation 2000;

- (b) it should appoint a domestic custodian for purpose of custody of securities;
- (c) it should enter into arrangement with a designated bank for the purpose of operating a special non-resident rupee or foreign currency account;
- (d) it should forthwith inform SEBI in writing if any information or particulars previously submitted to SEBI are found to be false or misleading in any material particular or if there is any change in the information already submitted.

Investment Criteria for Foreign Venture Capital Investor

All investments to be made by a foreign venture capital investors should be subject to the following conditions:

- (a) It should disclose to SEBI its investment strategy.
- (b) It can invest its total funds committed in one venture capital fund or alternative investment fund.
- (c) It shall make investments as enumerated below:
 - i. at least 66.67% of the investible funds should be invested in unlisted equity shares or equity linked instruments of venture capital undertaking or investee company.
 - ii. not more than 33.33% of the investible funds may be invested by way of :
 - (a) subscription to initial public offer of a venture capital undertaking or investee company whose shares are proposed to be listed;
 - (b) debt or debt instrument of a venture capital undertaking or investee company in which the foreign venture capital investor has already made an investment by way of equity.

Answer 2A(ii)

Notwithstanding anything contained in sub-section (2) or sub-section (2A) of the SEBI Act, 1992 any scheme or arrangement:

- (i) made or offered by a co-operative society registered under the Co-operative Societies Act, 1912 or a society being a society registered or deemed to be registered under any law relating to co-operative societies for the time being in force in any State :
- (ii) under which deposits are accepted by non-banking financial companies as defined in clause (f) of section 45-1 of the Reserve Bank of India Act, 1934;
- (iii) being a contract of insurance to which the Insurance Act, 1938, applies;
- (iv) providing for any Scheme, Pension Scheme or the Insurance Scheme framed under the Employees Provident Fund and Miscellaneous Provisions Act, 1952;
- (v) under which deposits are accepted under section 74 of the Companies Act, 2013;
- (vi) under which deposits are accepted by a company declared as a Nidhi or a mutual benefit society under section 406 of the Companies Act, 2013;

- (vii) falling within the meaning of Chit business as defined in clause (d) of section 2 of the Chit Fund Act, 1982;
- (viii) under which contributions made are in the nature of subscription to a mutual fund;
- (ix) such other scheme or arrangement which the Central Government may in consultation with SEBI notify, shall not be collective investment scheme.

Answer 2A(iii)

Company issuing Indian Depository Receipts (IDRs) has to comply with Regulation 71 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which provides for following:

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- | | | |
|---------------|---------------|---|
| Regulation 71 | Annual Report | <ul style="list-style-type: none"> • The listed entity shall submit to stock exchange an annual report at the same time as it is disclosed to the security holder in its home country or in other jurisdictions where such securities are listed.. • The annual report shall contain the following : <ul style="list-style-type: none"> (a) Report of board of directors; (b) Balance sheet; (c) Profit and loss account; (d) Auditors Report (e) All periodical and special reports (if applicable); (f) Any such other report which is required to be sent to security holders annually. • The listed entity shall comply with the requirements with respect to preparation and disclosure in financial results in annual report as specified in Part B of Schedule IV. |
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Question 3

- (a) *“Roadshows represent meeting of issuers, analysts and potential investors”.* Elucidate.
- (b) *“A company cannot make public issue of non-convertible redeemable preference shares unless certain conditions are fulfilled”.* Elaborate.
- (c) *Explain the obligations and responsibilities of Foreign Portfolio Investors (FPIs) as per SEBI (Foreign Portfolio Investors) Regulation 2014. (5 marks each)*

Answer 3(a)

Roadshows represent meetings of issues, analysts and potential investors. Details

about the company presented in the roadshows and such details usually include the following information about the company making the issue:

- History
- Organisational structure
- Principal objects
- Business lines
- Position of the company in Indian and international market
- Past performance of the company
- Future plans of the company
- Completion – domestic as well as foreign
- Financial results and operating performance
- Valuation of shares
- Review of Indian stock market and economic situations

Thus at road shows, series of information presentations are organized in selected cities around the world with analysts and potential institutional investors. It is, in fact a conference by the issuer; with the prospective investors. Road show is arranged by the lead manager by sending invitation to all prospective investors.

Answer 3(b)

As per regulation 4 of the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013, a company cannot make any public issue of non-convertible redeemable preference shares unless the following conditions are fulfilled:

1. The company shall not make any public issue of nonconvertible redeemable preference shares if as on the date of filing of draft Offer document or final offer document as provided :-
 - the company or the person in control of the company or its promoter or its director is restrained or prohibited or debarred by SEBI from accessing the securities market or dealing in securities; or
 - The company or any of its promoters or directors is a willful defaulter or it is in default of payment of interest or repayment of principal amount in respect of non-convertible redeemable preference shares issued by its to the public, if any, for a period of more than 6 months.
2. It has made an application to one or more recognized stock exchanges for listing of such securities therein. If the application is made to more than one recognized stock exchanges, the issuer must choose one of them which has nationwide trading terminals as the designated stock exchange.
3. It has obtained in-principle approval for listing of its non-convertible redeemable preference shares.

4. Credit rating including the unaccepted ratings obtained from more than one credit rating agencies, registered with SEBI shall be disclosed in the offer document.
5. The minimum tenure of the non-convertible redeemable preference shares shall not be less than three years.
6. The issue has been assigned a rating of not less than "AA" or equivalent by a credit rating agency registered with SEBI.
7. The Company shall create a capital redemption reserve in accordance with the provisions of the Companies Act, 2013.
8. The issuer shall not issue non-convertible redeemable preference shares for providing loan to or acquisition of shares of any person who is part of the same group or who is under the same management other than to subsidiaries of the issuer.

Answer 3(c)

Regulation 23 of the SEBI (Foreign Portfolio Investors) Regulations, 2014 provides for obligations and responsibilities of the Foreign Portfolio Investors (FPIs).

1. The FPIs shall:
 - comply with the provisions of these regulations, circulars and any other terms and conditions specified by SEBI from time to time.
 - forthwith inform SEBI and designated depository participant in writing. If there is any material change in the information previously furnished by him to SEBI or designated depository participant.
 - as and when required by SEBI or any other government agency in India, submit any information record or documents in relation to its activities as a foreign portfolio investor;
 - forthwith inform SEBI and the designated depository participant in case of any penalty, pending litigation, or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against it;
 - obtain a Permanent Account Number from the Income Tax Department.
 - in relation to its activities as foreign portfolio investor, at all times, subject itself to the extant Indian laws, rules, regulations and circulars issued from time to time and provide an express undertaking to this effect to the designated depository participant.
 - be a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008;
 - provide such declarations and undertakings as required by the designated depository participant; and
 - provide any additional information or documents including beneficiary ownership details of their clients as may be required by the designated depository participant or the SEBI or any other enforcement agency to ensure

compliance with the Prevention of Money Laundering Act, 2002 and the rules and regulations prescribed thereunder, the Financial Action Task Force standards and circulars issued from time to time by the SEBI.

2. In case of jointly held depository accounts, each of the joint holders shall meet the requirements specified for foreign portfolio investor and each shall be deemed to be holding a depository account as a foreign portfolio investor.
3. Multiple entities having common ownership, directly or indirectly, of more than fifty percent. or common control shall be treated as being part of the same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single foreign portfolio investor.
4. The clubbing of investment limit of foreign portfolio investors having common control shall not be applicable where:
 - (i) the foreign portfolio investors are appropriately regulated public retail funds; or
 - (ii) the foreign portfolio investors are public retail funds majority owned by appropriately regulated public retail fund on look through basis; or
 - (iii) foreign portfolio investors are public retail funds and Investment Managers of such foreign portfolio investors are appropriately regulated.
5. In order to appropriately monitor investment concentration where common ownership or control is identified for such public retail funds, the Indian depositories shall maintain details of controlling entities on the basis of name, address, nationality, passport number/ any other identification card issued by the Government of India and provide appropriate reports to the SEBI on a periodic basis.
6. In case of any direct or indirect change in structure or common ownership or control of the foreign portfolio investor, it shall bring the same to the notice of its designated depository participant forthwith.

Question 4

- (a) *XYZ Infrastructure Investment Trust wishes to go for delisting of units and winding up of the INVIT. As a company secretary describe the procedure of the same.* (8 marks)
- (b) (i) *What is infrastructure debt fund scheme ?* (2 marks)
- (ii) *As a company secretary describe the conditions for issue of infrastructure debt fund schemes.* (5 marks)

Answer 4(a)

To
The Board of Directors
XYZ Infrastructure Investment Trust

Sub: Delisting of Units and winding up of the InvIT

As per Regulation 17 of the SEBI (Infrastructure Investment Trust) Regulations, 2014, the investment manager shall apply for delisting of units of the InvIT to the Board and the designated stock exchanges if:

- (a) the public holding falls below the specified limit under these regulations.

- (b) the number of unit holders of the InvIT falls below the limit as prescribed in these regulations.
- (c) if there are no projects or assets remaining under the InvIT for a period exceeding six months and InvIT does not propose to invest in any project in future.
- (d) SEBI or the designated stock exchanges require such delisting for Violation of the listing agreement or these regulations or the Act;
- (e) the trustee and investment manager requests such delisting and such request has been approved by unit holders in accordance with these regulations.
- (f) the trustee and the Investment Manager of a privately placed and listed InvIT chooses to convert InvIT to a privately placed unlisted InvIT and such request has been approved by unit holders. However, exit shall be provided to dissenting unitholders.
- (g) unit holders apply for such delisting in accordance with these regulations.
- (h) SEBI or the designated stock exchanges require such delisting in the interest of the unit holders.

Note:

- o In Clause (c), the period may be extended by further 6 months, with the approval of unit holders in the manner as prescribed in these regulations.
- o if clause (a) or (b) is breached, the trustee may provide a period of six months to the investment manager to rectify the same, failing which shall apply for such delisting.
- o In case of PPP projects, such delisting shall be subject to relevant Clauses in the concession agreement
- o SEBI and the designated stock exchanges may consider such application for delisting for approval at rejection as may be appropriate in the interest of the unit holders.
- (i) SEBI may, instead of delisting of the units, if it deems fit, provide additional time to the InvIT or parties to the InvIT to comply with above mentioned conditions.
- (j) SEBI may reject the application for delisting and take any other action, as it deems fit, under these regulations or the Act for violation of the listing agreement or these regulations or the Act.
- (k) The procedure for delisting of units of InvIT including provision of exit option to the unit holders shall be in accordance with the listing agreement and in accordance with procedure as may be specified by SEBI and by the designated stock exchanges from time to time.
- (l) After delisting of its units. the InvIT shall surrender: its certificate of registration to SEBI and shall no longer undertake activity of an InvIT.
- (m) The InvIT and parties to the InvIT shall continue to be liable for all their acts of omissions and commissions with respect to activities of the InvIT notwithstanding surrender of registration to SEBI.

Answer 4(b)**(i) Infrastructure Debt Fund Scheme**

As per the Regulation 49L of the SEBI (Mutual Funds) Regulations, 1996 "Infrastructure debt fund scheme" means a mutual fund scheme that invests primarily (minimum 90% of scheme assets) in the debt securities or securitized debt instrument of infrastructure companies or infrastructure capital companies or infrastructure projects or special purpose vehicles which are created for the purpose of facilitating or promoting investment in infrastructure, and other permissible assets in accordance with these regulations or bank loans in respect of completed and revenue generating projects of infrastructure companies or projects or special purpose vehicles.

(ii) Conditions for issue of infrastructure debt fund scheme

1. An infrastructure debt fund scheme shall be launched either as close-ended scheme maturing after more than five years or interval scheme with lock-in of five years and specified transaction period of not more than forty five days as may be specified in the scheme information document.

However, the tenure of the scheme may be extended to two years subject to approval of two-thirds of the unit holders by value of their investment in the schedule.

2. Units of infrastructure debt fund schemes shall be listed on a recognized stock exchange provided that such units shall be listed only after being fully paid up.
3. Mutual Funds may disclose indicative portfolio of infrastructure debt fund scheme to its potential investors disclosing the type of assets the mutual fund will be investing.
4. An infrastructure debt fund scheme shall have minimum five investors and no single investor shall hold more than fifty percent of net assets of the scheme.
5. No infrastructure debt fund scheme shall accept any investment from any investor which is less than Rs. 1 crore.
6. The minimum size of the unit shall be Rs. 10 lakhs.
7. Each scheme launched as infrastructure debt fund scheme shall have firm commitment from the strategic investors for contribution of an amount of at least Rs. 25 crores before the allotment of units of the scheme are marketed to other potential investors.
8. Mutual funds launching infrastructure debt fund scheme may issue partly paid units to the investors subject to following conditions:
 - (a) The assets management company shall call for the unpaid portions, depending upon the deployment opportunities.
 - (b) The offer document of the scheme shall disclose the interest or penalty

which may be deducted in case of non-payment of call money by the investors within stipulated time; and

- (c) The amount of interest or penalty shall be retained in the scheme.

PART B

Question 5

Critically examine the following :

- (a) *“Every listed company other than public sector company shall maintain public shareholding of at least 25 percent”.*
- (b) *“The Securities Appellate Tribunals shall have, for the purposes of discharging their functions under Securities and Exchange Board of India Act, 1992. The same power as are vested in a Civil Court under the Code of Civil Procedure, 1908, while trying a suit”.*
- (c) *“Depository is to indemnify loss caused to the beneficial owner due to the negligence of the depository or the depository participant”.*
- (d) *“Compulsory delisting is different from voluntary delisting”.*
- (e) *“Fixed price process is different from book building process as regards to issue of securities”.* (4 marks each)

Answer 5(a)

Rule 19A (1) of the Securities Contracts (Regulations) Rules, 1957 ('SCRR') stipulates that every listed company other than public sector company shall maintain public shareholding of at least 25%.

Provided that any listed company which has public shareholding below twenty five per cent, on the commencement of the Securities Contracts (Regulation) (Amendment) Rules, 2014, shall increase its public shareholding to at least twenty five per cent, within a period of four years from the date of such commencement, in the manner specified by the Securities and Exchange Board of India.

Explanation : For the purposes of this sub-rule, a company whose securities has been listed pursuant to an offer and allotment made to public in terms of clause (b) of sub-rule (2) of rule 19, shall maintain minimum twenty five per cent, public shareholding from the date on which the public shareholding in the company reaches the level of twenty five percent in terms of said sub-clause.

Where the public shareholding in a listed company falls below twenty five per cent at any time, such company shall bring the public shareholding to twenty five per cent within a maximum period of twelve months from the date of such fall in the manner specified by the SEBI.

Where the public shareholding in a listed company falls below 25% in consequence to SCRR Amendment Rules, 2015, such company shall increase its shareholding to atleast 25%, in the manner specified by SEBI within a period of three years, as the case may be, from the date of notification of:

- (a) the Depository Receipts Scheme, 2014, in cases where the public shareholding falls below 25% as a result of such Scheme;

- (b) SEBI (Share Based Employee Benefits) Regulations, 2014, in cases where the public shareholding falls below 25%, as a result of such regulations.

Answer 5(b)

According to Section 15U (2) of the SEB Act, 1992, the Securities Appellate Tribunals shall have, for the purposes of discharging their functions under this Act, the same powers as are vested in a Civil Court under the Code of Civil Procedure, 1908, while trying a suit, in respect of the following matters, namely: —

- (a) summoning and enforcing the attendance of any person and examining him on oath;
- (b) requiring the discovery and production of documents;
- (c) receiving evidence on affidavits;
- (d) issuing commissions for the examination of witnesses or documents;
- (e) reviewing its decisions;
- (f) dismissing an application for default or deciding it ex parte;
- (g) setting aside any order of dismissal of any application for default or any order passed by it ex parte;
- (h) any other matter which may be prescribed.

Every proceeding before the Securities Appellate Tribunal shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228, and for the purposes of section 196 of the Indian Penal Code and the Securities Appellate Tribunal shall be deemed to be a civil court for all the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973.

Answer 5(c)

As per section 16 of the Depositories Act, 1996, any loss caused to the beneficial owner due to the negligence of the depository or the participant, would be indemnified by the depository to such beneficial owner. Where the loss due to the negligence of the participant is indemnified by the depository, the depository has the right to recover the same from such participant.

Answer 5(d)

Compulsory delisting refers to permanent removal of securities of a listed company from a stock exchange as a penalizing measure at the behest of the stock exchange for not making submissions/comply with various requirements set out in the listing agreement within the time frames prescribed. In voluntary delisting, a listed company decides on its own to permanently remove its securities from a stock exchange.

In case of voluntary delisting company cannot make public issue for next 5 years after delisting but in case of compulsory delisting company cannot make public issue for next 10 years after delisting. In case of voluntary delisting pricing norm shall be applicable but in case of compulsory delisting no such norm are there.

Answer 5(e)**Difference between fixed price process and book building process**

<i>Features</i>	<i>Fixed Price process</i>	<i>Book building process</i>
Pricing	Price at which the securities are offered/allotted is known in advance to the investor	Price at which securities will be offered/allotted is not known in advance to the investor. Only an indicative price range is known
Demand	Demand for the securities offered is known only after the closure of the issue	Demand for the securities offered can be known everyday as the book is built.
Payment	Payment if made at the time of subscription wherein refund is given after allocation	Payment only after allocation
Price band	There is fixed price.	There is price band with maximum 20% difference from floor price.

(Attempt all part of either Q. No. 6 or Q. No. 6A)

Question 6

- (a) Explain the requirements to be satisfied by the applicant for getting the certificate of registration as a portfolio manager. (5 marks)
- (b) “A listed entity may make a qualified institutions placement of eligible securities subject to certain conditions”. Elucidate. (5 marks)
- (c) (i) Define the debenture trustee. (2 marks)
- (ii) Describe responsibilities and obligations of debenture trustees. (3 marks)
- (d) Give exemptions under Regulation 4 of SEBI (Prohibition of Insider Trading) Regulations 2015 which prescribes that an insider shall not trade in securities which are listed or proposed to be listed on stock exchange when in possession of unpublished price sensitive information. (5 marks)

OR (Alternate question to Q. No. 6)

Question 6A

Write notes on the following :

- (i) Share Transfer Agent Services
- (ii) Mandatory Open Offer
- (iii) Dematerialization
- (iv) Clearing Corporation
- (v) Employee Stock Purchase Scheme. (4 marks each)

Answer 6(a)

The requirements to be satisfied by the applicant for getting the certificate of registration as mentioned in Regulation 6 of the SEBI (Portfolio Managers) Regulations, 1993 are as follows:—

1. the applicant is a body corporate;
2. the applicant has the necessary infrastructure like adequate office space, equipment's and the manpower to effectively discharge the activities of a portfolio manager;
3. the principal officer of the applicant has either professional qualifications in finance, law, accountancy or business management from an institution recognised by the Government or a foreign university or an experience of at least 10 years in related activities in the securities market including in a portfolio manager, stock broker or as a fund manager;
4. the applicant has in its employment minimum of two persons who, between them, have at least five years' experience as portfolio manager or stock broker or investment manager or in the areas related to fund management;
5. any previous application for grant of certificate made by any person directly or indirectly connected with the applicant has been rejected by SEBI;
6. any disciplinary action has been taken by SEBI against a person directly or indirectly connected with the applicant under the Act or the Rules or the Regulations made thereunder;
7. the applicant fulfils the capital adequacy requirements;
8. the applicant its director, principal officer or the employee as specified in Clause (d) is involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant.
9. the applicant, its director, principal officer the employee as specified in Clause (d) has at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence;
10. grant of certificate to the applicant is in the interests of investors.

Answer 6(b)

As per Regulation 172 of the SEBI (ICDR) Regulations, 2018:

1. A listed issuer may make a qualified institutions placement of eligible securities if it satisfies the following conditions:
 - (a) a special resolution approving the qualified institutions placement has been passed by its shareholders, and the special resolution shall, among other relevant matters, specify that the allotment is proposed to be made through qualified institutions placement and the relevant date referred to in sub-clause (ii) of clause (b) of regulation 17 the SEBI (ICDR) Regulations, 2018; Provided that no shareholders' resolution will be required in case the qualified institutions placement is through an offer for sale by promoters or promoter group for compliance with minimum public shareholding requirements specified in the Securities Contracts (Regulation) Rules, 1957.

Provided further that allotment pursuant to the special resolution referred to in this Clause (a) of regulation 172 shall be completed within a period of 365 days from the date of passing of the resolution.

- (b) the equity shares of the same class, which are proposed to be allotted through qualified institutions placement or pursuant to conversion or exchange of eligible securities offered through qualified institutions placement, have been listed on a stock exchange for a period of at least one year prior to the date of issuance of notice to its shareholders for convening the meeting to pass the special resolution.

\Provided that where an issuer, being a transferee company in a scheme of compromise, arrangement and amalgamation sanctioned by a High Court under sections 391-394 of the Companies Act, 1956 or approved by a tribunal or the Central Government under sections 230 to 234 of the Companies Act, 2013, whichever is applicable makes qualified institutions placement, the period for which the equity shares of the same class of the transferor company were listed on a stock exchange having nation-wide trading terminals shall also be considered for the purpose of computation of the period of one year.

Provided further that this clause shall not be applicable to an issuer proposing to undertake qualified institutional placement for complying with the minimum public shareholding requirements specified in the Securities Contracts (Regulation) 1957.

Explanation : For the purpose of clause (b), "equity shares of the same class" shall mean equity shares which rank pari passu in relation to rights as to dividend, voting or otherwise.

2. An issuer shall be eligible to make qualified institutions placement if any of its promoters or directors is not a fugitive economic offender.
3. All eligible securities issued through a qualified institutions placement shall be listed on the recognized stock exchange where the equity shares of the issuer are listed. Provided that the issuer shall seek approval under rule 19(7) of the Securities Contracts (Regulations) Rules, 1957, if applicable.
4. The issuer shall not make any subsequent qualified institutions placement until the expiry of six months from the date of the prior qualified institutions placement made pursuant to one or more special resolutions.

Answer 6(c)(i)

Debenture Trustees

Debenture Trustee means a trustee of a trust deed for securing any issue of debentures of a body corporate debentures bonds and other hybrid instruments in most cases unless otherwise specified, carry securities for the investors unlike in the case of equity and preference shares. It is necessary that the company makes proper arrangements to extend assurances and comply with legal requirements in favor of the investors who are entitled to this type of security.

Answer 6(c)(ii)**Responsibilities and Obligations of Debenture Trustees**

Regulation 13 of the SEBI (Debenture Trustees) Regulations, 1993 lays down that no debenture trustee who has been granted a certificate by SEBI shall act as debenture trustee unless he enters into a written agreement with the body corporate before the opening of the subscription list for issue of debentures and the agreement inter alia contains that debenture trustee has agreed to act as such under the trust deed for securing an issue of debentures for the body corporate and the time limit within which the security for the debentures for the body corporate and the time limit within which the security for the debentures shall be created :

Regulation 13A of the SEBI (Debenture Trustees) Regulations, 1993 stipulates that no debenture trustee shall act as such for any issue of debentures in case:

- (a) it is an associate of the body corporate; or
- (b) it has lent and the loan is not yet fully repaid or is proposing to lend money to the body corporate.

Regulation 14 provides that every debenture trustee shall amongst other matters accept the trust deed which contains the matters specified in Schedule IV to the Regulations.

Answer 6(d)

Regulation 4 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 prescribes that an insider shall not trade in securities, which are listed or proposed to be listed on stock exchange when in possession of unpublished price sensitive information. However there are certain exemptions:

- When there is an off-market transfer between promoters
 - who are aware of price sensitive information without being in breach of regulation 3 and
 - both parties had made a conscious and informed trade decision; or
- In the ease of non-individual insiders:
 - the individuals who were in possession of such unpublished price sensitive information were different from the individuals taking trading decisions and
 - such decision-making individuals were not in possession of such unpublished price sensitive information when they took the decision to trade; and
 - appropriate and adequate arrangements were in place to ensure that these regulations are not violated and no unpublished price sensitive information was communicated by the individuals possessing the information to the individuals taking trading decisions; and
 - there is no evidence of such arrangements having been breached.
- The trades were pursuant to a trading plan set up in accordance these regulations.

- In the case of connected persons, the onus of establishing, that they were not in possession of unpublished price sensitive information, shall be on such connected persons and in other cases, the onus would be on SEBI.
- SEBI may specify such standards and requirements from time to time, as it may deem necessary for the purpose of these regulations.

Answer 6A(i)

Share transfer agent services are:

- Processing of transfer of securities in physical form.
- Processing Transmission / Transposition / Consolidation of holdings.
- Processing of demat requests and converting physical holding into electronic holding (dematerialization).
- Processing of remat requests and converting electronic holding into physical holding (rematerialization)
- Recording of specimen signatures in electronic media.
- Recording of Change of address, Bank Mandates and ECS requests received from investors in physical mode.
- Accurate scanning and capturing of data.
- Issue of Duplicate/split/Consolidated Share Certificates .
- Registration of Nomination.
- Registration of Legal documents such as Power of Attorney etc.
- Dividend payout management services.
- Maintenance of relevant Records.
- Maintain and upkeep of statutory records such as Transfer Deeds , Demat / Remat Request Form,
- Register of Members, Allotment Registers , undelivered returned security documents and other Registers and Returns.
- Processing of Call payments and Endorsements.
- Investor Services including providing investor related information, across counters through written communication and through telephone and via e-mail.
- Integrating electronic beneficiary positions with the physical shareholding.
- Redress Investor Complaints which appears in SEBI Complaints Redress System (SCORES).
- Assisting Client Companies in the redressing investor grievances which appears in their ID.

Answer 6A(ii)**Mandatory Open Offer**

SEBI Takeover Regulations, 2011 provides for a threshold for mandatory Open Offer. The regulation provides that whenever an acquirer acquires the shares in excess of the threshold as prescribed under regulation 3 and 4 of SEBI Takeover Regulations, 2011, then the acquirer is required to make a public announcement of offer to the shareholders of the Target Company.

Regulation 3 of the SEBI Takeover Regulations, 2011 provides that the Acquirer to give an open offer to the shareholders of Target Company on the acquisition of shares or voting rights enlisting the Acquirer along with the persons acting in concert with him to exercise 25% or more voting rights in the Target Company.

Further any Acquirer who holds shares between 25 %-75 %, together with PACs can acquire further 5% shares as creeping acquisition without giving an Open Offer to the shareholders of the Target Company upto a maximum of 75%.

Answer 6A(iii)**Dematerialization**

Dematerialization is a process by which the physical share certificates of an investor are taken back by the Company and an equivalent number of securities are credited in his account in electronic form at the request of the investor. An investor will have to first open an account with a Depository Participant and then request for the dematerialization of his share certificates through the Depository Participant so that the dematerialized holdings can be credited into that account. This is very similar to opening of a bank account. Dematerialization of shares is optional and an investor can still hold shares in physical form. However, he/she has to demat the shares if he/she wishes to sell the same through the Stock Exchanges. Similarly, if an investor purchases shares from the Stock Exchange, he/she will get delivery of the shares in demat form. Odd lot share certificate can also be dematerialized.

Answer 6A(iv)**Clearing Corporation**

Section 8A(1) of the Securities Contracts (Regulation) Act, 1956 provides that a recognized stock exchange may with the prior approval of SEBI, transfer the duties and functions of a clearing house to a clearing corporation being a company incorporated under the Companies Act, 2013 for the purpose of –

- (a) the periodical settlement of contracts and differences thereunder;
- (b) the delivery of and payment for, securities;
- (c) any other matter incidental to, or connected with, such transfer.

Sub-section (2) provides that every clearing corporation shall for the purpose of transfer of the duties and functions of a clearing house to a clearing corporation referred to in sub-section (1), make bye-laws and submit the same to the SEBI for its approval.

Sub-section (3) provides that SEBI may, on being satisfied that it is in the interest of the trade and also in the public interest to transfer the duties and functions of a clearing house to a clearing corporation, grant approval to the bye-laws submitted to it and approve transfer of the duties and functions of a clearing house to a clearing corporation.

Answer 6A(v)

Employee Stock Purchase Scheme

As per the SEBI (Share Based Employee Benefits) Regulations, 2014, Employee Stock Purchase Scheme or ESPS means a scheme under which a company offers shares to employees, as part of public issue or otherwise, or through a trust where the trust may undertake secondary acquisition for the purposes of the scheme.

Administration and implementation

The ESPS scheme shall contain the details of the manner in which the scheme will be implemented and operated.

Pricing and Lock-In

The company may determine the price of shares to be issued under an ESPS provided they conform to the provisions of accounting policies under these regulation. Shares issued under an ESPS shall be locked in for a minimum period of one year from the date of allotment.

However, in case where shares are allotted by a company under ESPS in lieu of shares acquired by the same person under an ESPS in another company which has merged or amalgamated with the first mentioned company the lock-in period already undergone in respect of shares of the transferor company shall be adjusted against the lock-in period required under this sub-regulation.

If ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employees pursuant to ESPS shall not be subject to lock-in.

INDUSTRIAL, LABOUR AND GENERAL LAWS – SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

PART A

1. Under the Factories Act 1948 "Young Person" means a person who :
 - (A) is either a child or an adolescent
 - (B) has completed his twenty years of age
 - (C) has completed his twenty one years of age
 - (D) has completed his fourteen years of age
2. Which one is not manufacturing process under the Factories Act, 1948 ?
 - (A) Preparation of soap in soap works
 - (B) Process carried out in converting sea water into salt
 - (C) Any preliminary packing of raw material for delivering it to the factory
 - (D) None of the above
3. Section 49 of the Factories Act, 1948 imposes statutory obligation upon the occupier of the factory of appointment of welfare officer wherein _____ or more workers are ordinarily employed.
 - (A) 20
 - (B) 100
 - (C) 250
 - (D) 500
4. Who is empowered to appoint inspector under Sec. 8 of the Factories Act, 1948?
 - (A) Central Government
 - (B) State Government
 - (C) Occupier
 - (D) High Court

5. Under the Factories Act, 1948, what is minimum number of worker in a factory required for arrangement of cooling drinking water during hot weather ?
 - (A) 50
 - (B) 100
 - (C) 250
 - (D) 500
6. What is maximum daily hour of work for an adult worker in a factory under Section 54 of the Factories Act, 1948 ?
 - (A) 8 hours
 - (B) 9 hours
 - (C) 7 hours
 - (D) 6 hours
7. Under the Minimum Wages Act, 1948 in relation to mine "Appropriate Government" means:
 - (A) Central Government
 - (B) State Government
 - (C) Central and State Government both
 - (D) Local authority
8. Under the Minimum Wages Act, 1948 wages includes:
 - (A) Gratuity payable on discharge
 - (B) Contribution of employer to any Pension Fund
 - (C) House rent allowance
 - (D) All of the above
9. What is maximum punishment of imprisonment under sec. 22 of the Minimum Wages Act, 1948 for paying to employee less than the minimum rates of wages?
 - (A) 6 months
 - (B) 9 months
 - (C) 1 year
 - (D) 2 years
10. What are the methods for fixing minimum rates of wages under sec. 5(1)(a) of the Minimum Wages Act 1948 ?
 - (A) Commission method and notification method
 - (B) Committee method and notification method
 - (C) Alternative method and commission method
 - (D) Alternative method and notification method

11. Under the Payment of Wages Act, 1936 'Wages' does not include :
 - (A) Any bonus
 - (B) The value of any house-accommodation
 - (C) Any travelling allowance
 - (D) All the above
12. Sec. 2(ib) of Payment of Wages Act, 1936 deals with :
 - (A) Factory
 - (B) Employer
 - (C) Employed person
 - (D) None of the above
13. Under Sec. 13 A of the Payment of Wages Act, 1936 every register and record will be preserved for a period of :
 - (A) three years
 - (B) four years
 - (C) eight years
 - (D) nine years
14. The Equal Remuneration Act, 1976 provides for payment of equal remuneration to :
 - (A) Men and women
 - (B) Child and adult
 - (C) Child, adolescent and adult
 - (D) Men, women, child and adult
15. Under Section 2(11) of the Employees' State Insurance Act, 1948 who among the following relative shall not come under the family ?
 - (A) Spouse
 - (B) Minor legitimate child
 - (C) Minor adopted child
 - (D) Married daughter
16. Under Section 2(6A) of the Employees' State Insurance Act, 1948 a legitimate or adopted son shall be dependent of a deceased insured person, if he has not attained the age of:
 - (A) twenty-five years
 - (B) twenty-one years
 - (C) eighteen years
 - (D) sixteen years

17. Employees Provident Funds and Miscellaneous Provisions Act, 1952 extends to :
- (A) Whole of India
 - (B) Whole of India except Jammu and Kashmir
 - (C) In Jammu and Kashmir only
 - (D) None of the above
18. The Employees' State Insurance Act, 1948 provides for the constitution of a Standing Committee under:
- (A) Section 5
 - (B) Section 6
 - (C) Section 7
 - (D) Section 8
19. How many schemes are in operation under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 ?
- (A) Three
 - (B) Four
 - (C) Five
 - (D) Seven
20. The Employee Deposits—Linked Insurance Scheme came into force on the :
- (A) 1st August 1976
 - (B) 25th January 1976
 - (C) 1st November 1976
 - (D) 15th July 1976
21. Under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, how much contributory service is required of entitlement to pension ?
- (A) Minimum 8 years
 - (B) Minimum 10 years
 - (C) Minimum 15 years
 - (D) Minimum 20 years

22. How many members of persons, during an accounting year, are required to be employed in an establishment for payment of bonus under the Payment of Bonus Act, 1965 ?
- (A) Minimum 10
 - (B) Minimum 20
 - (C) Minimum 50
 - (D) Minimum 100
23. The Payment of Bonus Act, 1965 shall apply to :
- (A) Every factory
 - (B) Employees employed by the Deposit Insurance Corporation
 - (C) Employees employed by the Unit Trust of India
 - (D) All the above
24. For the purpose of Sec. 29 of the Payment of Bonus Act, 1965 "Company" includes:
- (A) Body corporate
 - (B) Firm
 - (C) Association of Individuals
 - (D) All the above
25. What is maximum amount of fine under Sec. 28 of the Payment of Bonus Act, 1965 ?
- (A) ₹1,000
 - (B) ₹ 2,000
 - (C) ₹ 5,000
 - (D) ₹10,000
26. The Payment of Gratuity Act, 1972 extends to :
- (A) the whole of India
 - (B) the whole of India except the State of Jammu and Kashmir
 - (C) the whole of India except the State of Nagaland
 - (D) the whole of India except the State of Nagaland and State of Jammu and Kashmir

27. Under Section 2(h) of Payment of Gratuity Act, 1972 in case of a male employee, 'family' does not include :
- (A) employee's dependent parents
 - (B) dependent parents of employee's wife
 - (C) children of employee's predeceased son
 - (D) children of employee's predeceased daughter
28. Under Section 7(7) of the Payment of Gratuity Act, 1972 any person aggrieved by an order of Controlling Authority may prefer an appeal to the :
- (A) Appropriate Government
 - (B) Supreme Court
 - (C) High Court
 - (D) District Court
29. Gratuity has been exempted from attachment in execution of any decree or order of:
- (A) Civil Court
 - (B) Revenue Court
 - (C) Criminal Court
 - (D) All the above
30. Which of the following section of Payment of Gratuity Act, 1972 deals with recovery of gratuity ?
- (A) Section 6
 - (B) Section 7
 - (C) Section 8
 - (D) Section 9
31. If after the accident a worker has become disabled, and cannot do a particular job but the employer offers him another kind of job, the worker is entitled to compensation for partial disablement. It was held in :
- (A) General Manager, G.I.P. Rly. Vs. Shankar
 - (B) Sukhai Vs. Hukam Chand Jute Mills Ltd.
 - (C) Divisional Manager KSRTC Vs. Bhimaiah
 - (D) Mangru Palji Vs. Robinsons

32. Under the Section 3 of the Employees Compensation Act, 1923 the employer shall not be liable when the inquiry does not result in disablement for a period exceeding :
- (A) 3 days
 - (B) 10 days
 - (C) 15 days
 - (D) 30 days
33. Under Section 30 of the Employees' Compensation Act, 1923 an appeal of orders of a Commissioner shall lie to the :
- (A) Supreme Court
 - (B) District Court
 - (C) High Court
 - (D) Appropriate Government
34. Contract Labour (Regulation and Abolition) Act, 1970 came into force on :
- (A) 5th December 1970
 - (B) 5th November 1970
 - (C) 15th January 1971
 - (D) 10th February 1971
35. Under Section 15 of the Contract Labour (Regulation and Abolition) Act, 1970 aggrieved person against the order relating to revocation of registration may file an appeal within:
- (A) 30 days
 - (B) 45 days
 - (C) 60 days
 - (D) 90 days
36. Under the Contract Labour (Regulation and Abolition) Act, 1970 where the offence consists of disobeying a written order made by an inspector, what is limitation period for filing complaint ?
- (A) 2 months
 - (B) 3 months
 - (C) 6 months
 - (D) 9 months

37. Consider the following statements under the Maternity Benefit Act, 1961 :
- (1) 'Child' includes a still-born child.
 - (2) 'Establishment' does not mean factory.
- Select the correct answer from the options given below :
- (A) (1) and (2) both are true
 - (B) (1) and (2) both are false
 - (C) (1) is true and (2) is false
 - (D) (1) is false and (2) is true
38. Which Article of the Indian Constitution is related to Maternity benefit ?
- (A) Article 42
 - (B) Article 38
 - (C) Article 39
 - (D) Article 48
39. Under the Maternity Benefit Act, 1961 woman who returns to duty after delivery shall, be allowed in the course of her daily work two additional breaks until the child attains the age of :
- (A) 9 months
 - (B) 16 months
 - (C) 15 months
 - (D) 12 months
40. Section 21 of the Maternity Benefit Act, 1961 deals with :
- (A) Penalty for contravention of Act
 - (B) Registers
 - (C) Cognizance of offences
 - (D) All the above
41. Under the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 child means a person who has not completed his of age or such age as may be specified in the Right of Children to Free and Compulsory Education Act, 2009, whichever is more.
- (A) twelve year
 - (B) fourteenth year
 - (C) sixteen year
 - (D) eight year

42. Section 17 A of the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 provides that the appropriate Government may confer powers and impose duties on a :
- (A) District Judge
 - (B) District Magistrate
 - (C) Chief Judicial Magistrate
 - (D) High Court Judge
43. According to Section 2 of the Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 'Day' means a period of:
- (A) twenty-four hours beginning at midnight
 - (B) twenty-four hours beginning at 07:00 a.m.
 - (C) twelve hours beginning at 07:00 a.m.
 - (D) twelve hours beginning at 09:00 a.m.
44. Consider the following statements under the Industrial Employment (Standing Orders) Act, 1946 :
- (i) Certified standing orders become part of the statutory terms and conditions.
 - (ii) Certified standing orders are contractual terms and conditions of service.
 - (iii) Certified standing orders are binding on the employer.
 - (iv) Certified standing orders are not binding on the employees.
- Select the correct statement from the options given below :
- (A) (i) and (iii)
 - (B) (ii) and (iv)
 - (C) (i) and (iv)
 - (D) (iii) and (iv)
45. Under the Section 3 of the Industrial Employment (Standing Orders) Act, 1946 how many copies of 'Draft Standing Order' are required to submit to the certifying officer ?
- (A) 4
 - (B) 5
 - (C) 6
 - (D) 7

46. Under the Section 2(a) of the Industrial Employment (Standing Order) Act, 1946 Appellate Authority is appointed by :
- (A) High Court
 - (B) Supreme Court
 - (C) Labour Court
 - (D) Appropriate Government
47. In the case of Bangalore Water Supply and Sewerage Board Vs. A. Rajiappa, Supreme Court defined the term :
- (A) Dispute
 - (B) Industry
 - (C) Wages
 - (D) Trade
48. In which of the following cases the Supreme Court decided that teachers are not workmen under the Industrial Disputes Act, 1947 ?
- (A) Sunderambal Vs. Government of Goa
 - (B) J.K. Cotton Spinning and Weaving Mills Co. Ltd. Vs. L.A.T.
 - (C) Carona Sahu Co Ltd. Vs. Labour Court
 - (D) Standard Vacuum Oil Co. Vs. Commissioner of Labour
49. The case of Bharat Sugar Mills Ltd. Vs. Jai Singh, is related with the legality of:
- (A) go-slow strike
 - (B) lay-off
 - (C) lock-out
 - (D) retrenchment
50. What is maximum penalty of imprisonment for illegal Strikes under Section 26(1) of the Industrial Disputes Act, 1947 ?
- (A) one year
 - (B) one month
 - (C) three months
 - (D) six months
51. Under the Industrial Disputes Act, 1947 Unfair Labour Practices have been listed in :
- (A) Schedule V
 - (B) Schedule IV
 - (C) Schedule III
 - (D) Schedule II

52. How many minimum members are required for registration of Trade Union under the Trade Union Act, 1926 ?
- (A) Five
 - (B) Seven
 - (C) Fifteen
 - (D) Twenty
53. Under the Trade Union Act, 1926 application for registration of a Trade Union shall be made to the :
- (A) Appropriate government
 - (B) State Government
 - (C) Registrar
 - (D) Central Government
54. Which of the following statements is incorrect under the Trade Union Act, 1926?
- (A) Registered Trade Union shall be a body corporate
 - (B) Registered Trade Union shall not have perpetual succession.
 - (C) Registered Trade Union shall have power to acquire and hold both movable and immovable property.
 - (D) Registered Trade Union shall have a common seal
55. Under the Trade Union Act, 1926 a copy of every alteration made in the rules of a registered Trade Union shall be sent to the Registrar within _____ of the making of the alteration.
- (A) fifteen days
 - (B) twenty one days
 - (C) thirty days
 - (D) forty five days
56. Which Section of Trade Union Act, 1926 provides definition of Trade Union ?
- (A) Section 2(a)
 - (B) Section 2(b)
 - (C) Section 2(c)
 - (D) Section 2(h)
57. How many Acts are specified in first schedule of the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishment) Act, 1988 ?
- (A) Fourteen
 - (B) Sixteen
 - (C) Eighteen
 - (D) Twenty

58. Consider the following statements under the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 and choose the correct option :
- Statement No. 1** —"Small establishment" means an establishment in which not less than ten and not more than forty persons are employed.
- Statement No. 2** —"Very small establishment" means an establishment in which not more than nine persons are employed
- (A) Both the statements are true
(B) Both the statements are untrue
(C) Statement No. 1 is true but Statement No. 2 is untrue
(D) Statement No. 1 is untrue but Statement No. 2 is true
59. Section 6 of the Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 deals with :
- (A) Establishment
(B) Exemption from furnishing or maintaining of returns
(C) Penalty
(D) Registers in electronic form
60. The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 applies to those establishments in the private sectors where ordinarily persons are employed to work.
- (A) twenty or more
(B) twenty five or more
(C) fifty or more
(D) seventy five or more
61. Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 does not apply in relation to vacancies in any employment:
- (A) in domestic service
(B) where the period of employment is less than three months
(C) to do unskilled office work
(D) all the above
62. Under the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 Establishment in Public Sector means :
- (A) Department of Government
(B) Government Company
(C) Local authority
(D) All the above

63. Which Section of the Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959 deals with right of access to record ?
- (A) Section 4
 - (B) Section 5
 - (C) Section 6
 - (D) Section 7
64. What is minimum age required for being engaged as an apprentice for designated trades related to hazardous industries under the Apprentice Act, 1961 ?
- (A) Fourteen years
 - (B) Sixteen years
 - (C) Eighteen years
 - (D) Twenty one years
65. Under Section 4A of the Apprentice Act, 1961, if any objection raised by Apprenticeship Advisor, he shall convey to employer within :
- (A) Fifteen days
 - (B) Twenty one days
 - (C) Twenty five days
 - (D) Thirty days
66. Section 15 of the Apprentice Act, 1961 does not deal with :
- (A) Hour of work
 - (B) Salary
 - (C) Overtime
 - (D) Leave and holidays
67. As per Section 20 of the Apprentice Act, 1961 any disagreement or dispute between an employer and an apprentice arising out of the contract of apprenticeship shall be referred to the :
- (A) Labour Court
 - (B) High Court
 - (C) Apprenticeship Adviser
 - (D) Appropriate Government
68. Which of the following is not authority under the Apprentice Act, 1961 ?
- (A) The State Council
 - (B) The All India Council
 - (C) The Central apprenticeship adviser
 - (D) The State Bar Council

69. Choose the incorrect statement :
- (A) Labour Audit is a process of fact finding.
 - (B) Labour Audit is not continuous process.
 - (C) Social Justice is guaranteed by the Preamble of Indian Constitution.
 - (D) Labour Audit will increase workers' Social Security.
70. Which one of the following is not Benefits of Labour Audit to employer ?
- (A) Increased productivity in view of lower absenteeism in the enterprise
 - (B) Status in the society for the employer will increase
 - (C) Co-operation of and understanding with the workers will improve labour relations.
 - (D) None of the above.

PART B

71. When was the Constitution of India adopted ?
- (A) 26th January, 1949
 - (B) 26th November, 1948
 - (C) 26th November, 1949
 - (D) 26th January, 1950
72. Preamble is a part of the Constitution. It was held in :
- (A) Kesavananda Bharati Vs. State of Kerala
 - (B) Zee Telefilms Ltd. Vs. Union of India
 - (C) A.K. Gopalan Vs. State of Madras
 - (D) Charanjit Lai Chowdhary Vs. Union of India
73. Which one of the following is not correctly matched ?
- (A) Right to freedom—Articles 19 to 22
 - (B) Right against exploitation—Articles 23 to 24
 - (C) Right to freedom of Religion—Articles 29 to 30
 - (D) Right to Constitutional remedies- Article 32
74. Article 15(1) prohibits the State from discriminating against any citizen on grounds of:
- (A) religion, race, caste, sex, place of birth
 - (B) religion, race, caste, sex, place of birth and place of residence
 - (C) religion, race, caste, sex, descent and place of residence
 - (D) religion, race, caste, sex, descent, place of birth and place of residence

75. Protection of Article 21 of the Indian Constitution is provided to :
- (A) Every citizen
 - (B) Every citizen except alien enemy
 - (C) Every Resident of India
 - (D) Every Person
76. The Fundamental Duties were inserted in the Indian Constitution by the :
- (A) 42nd Constitutional Amendment
 - (B) 44th Constitutional Amendment
 - (C) 24th Constitutional Amendment
 - (D) 36th Constitutional Amendment
77. According to which of the following rule the words, phrases and sentences of a statute are ordinarily to be understood in their natural, ordinary or popular and grammatical meaning ?
- (A) Harmonious construction
 - (B) Literal construction
 - (C) Mischief rule
 - (D) Reasonable construction
78. Eiusdem Generis means :
- (A) of the same kind
 - (B) statute must be read as a whole
 - (C) express mention of one thing implies the exclusion of another
 - (D) All the above
79. Which one of the following is not internal aid in interpretation ?
- (A) Preamble
 - (B) Title
 - (C) Parliamentary history
 - (D) Marginal notes
80. Sections 5 and 6 of Specific Relief Act, 1963 deals with :
- (A) Recovery of possession of immovable property
 - (B) Recovery of possession of movable property
 - (C) Specific Performance of Contracts
 - (D) Contracts which cannot be specifically enforced

81. Under Specific Relief Act, 1963 an injunction is a :
- (A) Legislative Process
 - (B) Judicial Process
 - (C) Quasi-judicial Process
 - (D) Non-judicial Process
82. Which one of the following is extra-judicial remedy under Law of Tort ?
- (A) Injunction
 - (B) Specific Restitution of Property
 - (C) Self defence
 - (D) None of the above
83. Consider the following statements and choose the correct option.
Statement No. 1 : Law of Limitation does not bar remedy.
Statement No. 2 : Law of Limitation extinguishes rights.
- (A) Both the statements are true
 - (B) Both the statements are false
 - (C) Statement No. 1 is true but Statement No. 2 is false
 - (D) Statement No. 1 is false but Statement No. 2 is true
84. Choose the incorrect statement under the Evidence Act, 1872 :
- (A) Oral evidence must in all cases be direct.
 - (B) All facts including the contents of documents may be proved by oral evidence
 - (C) 'Primary evidence' means the document itself produced for the inspection of the Court
 - (D) Copies made from or compared with the original are secondary
85. Evidence may be given of :
- (A) any facts
 - (B) only facts in issue
 - (C) only relevant facts
 - (D) only facts in issue and relevant facts
86. A person is unable to speak, he gives his evidence in writing. This is :
- (A) Oral evidence
 - (B) Documentary evidence
 - (C) Circumstantial evidence
 - (D) Indirect evidence

87. A man knocked down by a speeding car and a few yards away, there is a car going. ""The car has knocked down the man" this is :
- (A) Conclusive proof
 - (B) Presumption of law
 - (C) Presumption of fact
 - (D) Mixed presumption
88. The law which determines rights and liabilities of parties :
- (A) Procedural law
 - (B) Substantive law
 - (C) Codified law
 - (D) All the above
89. A Court tries and decides suits filed before it. This is :
- (A) Advisory jurisdiction
 - (B) Appellate jurisdiction
 - (C) Original jurisdiction
 - (D) Special jurisdiction
90. "Judgement-debtor" means any person :
- (A) Against whom a decree has been passed
 - (B) Against whom an order capable of execution has been made
 - (C) (A) and (B) both
 - (D) In whose favour a decree has been passed
91. Under the Code of Criminal Procedure, 1973 an "anticipatory bail" is granted by the :
- (A) High Court only
 - (B) Executive Magistrate only
 - (C) Court of Session only
 - (D) High Court or Court of Session.
92. Under the Code of Criminal Procedure, 1973 a "Warrant case" means a case relating to an offence punishable with :
- (A) Death or imprisonment for life only
 - (B) Death, imprisonment for life or imprisonment for a term exceeding two years
 - (C) Death, imprisonment for life or imprisonment for a term exceeding ten years
 - (D) Death or imprisonment for a term exceeding ten years

93. The Chief Judicial Magistrate can pass maximum punishment of imprisonment:
- (A) Life imprisonment
 - (B) 7 years
 - (C) 10 years
 - (D) 3 years
94. Who among the following is empowered to take security for keeping the peace under Section 107 of Code of Criminal Procedure, 1973 ?
- (A) Executive Magistrate
 - (B) Chief Judicial Magistrate
 - (C) Judicial Magistrate of the first class
 - (D) Judicial Magistrate of the second class
95. According to Section 3 of Right to Information Act, 2005 who among the following has right to information ?
- (A) All citizens of India
 - (B) All persons
 - (C) All public servants
 - (D) All persons except accused of a crime
96. The Right to Information Act, 2005 received the assent of the President on :
- (A) 11th May, 2005
 - (B) 15th June, 2005
 - (C) 12th May, 2005
 - (D) 12th June, 2005
97. Under the Right to Information Act, 2005 'record' does not include :
- (A) any microfilm of a document
 - (B) manuscript
 - (C) material produced by computer
 - (D) none of the above
98. What is maximum penalty on a Public Information Officer (PIO) for failing to provide information under Section 20 of the Right to Information Act, 2005 ?
- (A) ₹20,000
 - (B) ₹25,000
 - (C) ₹50,000
 - (D) ₹1,00,000

99. Which one of the following statements is false under the Right to Information Act, 2005 ?
- (A) Maximum number of member in Central Information Commission is 15 including Chief Information Commissioner
 - (B) Central Information Commission shall have its Headquarter in Delhi
 - (C) The State Information Commission is constituted by the State Government
 - (D) The Salary of the State Chief Information Commissioner will be same as that of an Election Commissioner
100. Which one of the following statements is false under the Right to Information Act, 2005 ?
- (A) While initiating an enquiry the State Information Commission has same powers as vested in a Civil Court
 - (B) The State Information Commission during the inquiry of any complaint under this Act may examine any record which is under the control of the public authority
 - (C) Burden of proving that denial of information was justified lies with the PIO
 - (D) None of the above

ANSWER KEY
INDUSTRIAL LABOUR AND GENERAL LAWS - SELECT SERIES

PART A		Qno	Ans	Qno	Ans
Qno	Ans	34	D	68	D
1	A	35	A	69	B
2	C	36	C	70	D
3	D	37	C		PART B
4	B	38	A	71	C
5	C	39	C	72	A
6	B	40	A	73	C
7	A	41	B	74	A
8	C	42	B	75	D
9	A	43	A	76	A
10	B	44	A	77	B
11	D	45	B	78	A
12	B	46	D	79	C
13	A	47	B	80	A
14	A	48	A	81	B
15	D	49	A	82	C
16	A	50	B	83	B
17	B	51	A	84	B
18	D	52	B	85	D
19	A	53	C	86	A
20	A	54	B	87	C
21	B	55	A	88	B
22	B	56	D	89	C
23	A	57	B	90	C
24	D	58	A	91	D
25	A	59	C	92	B
26	A	60	B	93	B
27	D	61	D	94	A
28	A	62	D	95	A
29	D	63	C	96	B
30	C	64	C	97	None of the Options are appropriate.
31	A	65	A*	98	B
32	A	66	B	99	A
33	C	67	C	100	D

Notes

65 *Section 4A mentioned in the Question does not exist in the Apprentice Act, 1961. So we are assuming it to be Section 4(4A) of the Apprentice Act, 1961. Accordingly the correct option is (A).

97 None of the Options are appropriate.